

The complaint

Mr M complains that Tandem Home Loans Ltd lent him a second charge secured loan irresponsibly.

What happened

In October 2021 Mr M wanted to consolidate his unsecured debts and borrow some money for home improvements. On the recommendation of a broker he took out a second charge secured loan with Oplo HL Ltd, which is now Tandem Home Loans Ltd.

Mr M borrowed £30,000 plus fees. A broker fee of £2,995 and an acceptance fee of £1,295 gave a total loan of £34,290. The loan was arranged over a term of 20 years, on a capital and interest repayment basis.

The interest rate was fixed at 11% for the first five years, after which it would revert to the lender's standard variable rate. The monthly payments were £354.10 during the fixed rate period.

In May 2024 Mr M made a complaint to Tandem through a claims management company. He said that Tandem had failed to carry out appropriate checks before granting the loan, it had lent to him irresponsibly and the loan was unaffordable from the start.

Tandem said it had done nothing wrong. It said it had carried out appropriate and robust checks before lending, it hadn't acted irresponsibly, Mr M had kept up with the loan payments and there was no indication of any financial difficulty.

Mr M referred his complaint to us. Our Investigator concluded that Tandem hadn't properly taken account of the impact of future interest rate rises on Mr M's first charge mortgage – known as stress testing. He said that had Tandem considered this it would have found that the new loan wasn't affordable or sustainable, and it shouldn't have lent.

The Investigator recommended that Tandem refund all the interest and fees charged on the loan and treat all Mr M's payments as reducing the capital, amend Mr M's credit file, and discuss an affordable payment plan with Mr M.

Mr M didn't say whether or not he accepted that conclusion, but Tandem did not accept it. It said it had correctly stress tested payments on Mr M's first charge mortgage because it was only required to base the stress test on the interest rate which applied to the mortgage at the time of Mr M's application to it, not on the reversionary interest rate which would apply to the mortgage later. It had done that and its assessment showed that Mr M would have nearly £250 free cash each month once the new loan was taken out and existing debts consolidated. It also pointed out that the new loan reduced Mr M's monthly outgoings and Mr M had made the payments to the loan since it was taken out, which it said proves that he could afford the loan.

It has since come to light that Mr M entered into an individual voluntary arrangement (IVA) – a form of insolvency – in early 2023. His IVA supervisor has told us that they will have an

interest in any compensation awarded in this complaint.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Tandem had an obligation to lend to Mr M responsibly, and in doing so it had to take account of whether the new loan would be affordable for him on a sustainable basis. I've looked carefully at the affordability assessment it carried out.

Mr M was in full time employment when he took out the loan. He said on his application that his net monthly salary was £1,834, he had no dependants, and the property on which the loan was to be secured was worth around £159,000. He said he had an existing first charge mortgage on the property with a balance of £124,479. He said that mortgage was on a fixed interest rate of 1.49% until 2 January 2024, with monthly payments of £392.77 and a remaining term of 33 years and 7 months.

Tandem asked for and received a number of documents to support Mr M's application, including recent payslips. On that basis it calculated his monthly income at £1,763.14, slightly less than Mr M had put on his application. It also checked his credit file which included information about how he had managed his debts – he had no defaults or arrears – and it used Office of National Statistics figures for typical expenditure for similar households for household essentials and living costs unless Mr M had told it his outgoings for these things were higher or it found evidence of them being higher. I think these parts of Tandem's assessment were reasonable.

Tandem's assessment showed that Mr M would have £247.04 free cash each month after accounting for the payments to the new loan, after saving £121.56 on payments to existing debts once they had been repaid with the new loan.

Tandem also stress tested payments to Mr M's first charge mortgage based on the current interest rate he was paying – which was 1.49%. It added 3% to this in order to stress test the affordability of the new loan if interest rates were to rise by that amount. It calculated that this would leave Mr M with £65.08 monthly free cash. It has said that this met its lending policy and so it agreed to lend.

Tandem has also said that its approach to stress testing was correct, and it has provided extracts from a consultation published by the Financial Conduct Authority (FCA) in 2014 and an FCA policy statement from 2015 to support its position.

I've carefully considered Tandem's comments about how it stress tested payments to Mr M's main mortgage and the documents it has relied on. However, the rules of mortgage regulation apply to this loan and I must therefore apply those rules as they were at the time of the lending decision to this complaint.

The rules are found in the MCOB section of the FCA's Handbook. Section 11.6 of MCOB deals with responsible lending. It says that a lender should assess whether the customer will be able to pay the sums due and not enter into the loan unless it can demonstrate that it's affordable. In doing so, as well as taking account of income and expenditure over the term of the loan, the lender should take account of the impact of likely future interest rate increases on affordability.

The rules say (at MCOB 11.6.14 R) that:

“If a firm is, or should reasonably be aware from information obtained during the application process, that there will, or are likely to, be future changes to the income and expenditure of the customer during the term of the regulated mortgage contract [...] the firm must take them into account when assessing whether the customer will be able to pay the sums due”.

In respect of future interest rate increases (stress testing), the relevant rule is MCOB 11.6.18 R, which said at the time of this lending decision:

“(1) [...] in taking account of likely future interest rate increases for the purposes of its assessment of whether the customer will be able to pay the sums due, a mortgage lender must consider the likely future interest rates over a minimum period of five years from the expected start of the term of the regulated mortgage contract (or variation), unless the interest rate under the regulated mortgage contract is fixed for a period of five years or more from that time, or for the duration of the regulated mortgage contract (or variation), if less than five years.

(2) In coming to a view as to likely future interest rates, a mortgage lender must have regard to:

(a) market expectations; and

(b) any prevailing Financial Policy Committee recommendation on appropriate interest-rate stress tests;

and must be able to justify the basis it uses by reference to (a) and (b).

(3) For the purposes of this rule, even if the basis used by the mortgage lender in (2) indicates that interest rates are likely to fall, or to rise by less than 1%, during the first five years of the regulated mortgage contract (or variation), a mortgage lender must assume that interest rates will rise by a minimum of 1% over that period.”

MCOB 11.6.18A R said:

“(1) [...] in taking account of likely future interest rate increases for the purposes of its assessment of whether the customer will be able to pay the sums due, a second charge lender must also consider the likely future interest rates of any regulated mortgage contract in existence at the time of the assessment and remaining in existence after the relevant second charge regulated mortgage contract has been entered into.

(2) The second charge lender must, at a minimum, base its assessment under (1) on the balance outstanding of any regulated mortgage contract relevant under (1).”

Tandem didn't have to stress test payments on its own loan. There was no requirement for it to do so, because the interest rate was fixed for five years – the rules say that a stress test wasn't needed in those circumstances. It did however have to stress test payments on Mr M's main mortgage. It says it did that, based on the fixed interest rate the mortgage was on at the time, plus 3%.

I don't think that Tandem took a fair approach to stress testing. It knew when it decided to lend that the fixed interest rate on Mr M's first charge mortgage would end in January 2024. That information was included on his completed loan application form. So it knew that there would be a change in Mr M's expenditure just over two years after he made his loan application. It should also have known that this change was likely to be a significant one, since Mr M's main mortgage was his biggest financial commitment.

In deciding whether to lend Tandem was required to take account of likely future interest rate increases on Mr M's first charge mortgage. It knew that the fixed rate Mr M was paying on his main mortgage in October 2021 was 1.49%, and therefore that when that fixed rate came to an end Mr M would have to pay interest at the first charge lender's reversionary rate if he didn't or couldn't take another interest rate product.

While MCOB 11.6.18A R isn't explicit about how a second charge lender must go about considering likely future interest rates on any existing and continuing regulated mortgages, MCOB 11.6.18 R is explicit and clear about how a lender should make that assessment. It should have regard to market expectations and any prevailing Financial Policy Committee recommendation on appropriate interest-rate stress tests, and be able to justify the basis it uses by reference to these measures.

At the time Mr M took out his loan, the Financial Policy Committee's (FPC) recommendation on appropriate interest rate stress tests was to use an interest rate 3% higher than the mortgage reversion rate. Tandem did use a rate of 3%, but it didn't apply this to the reversion rate on Mr M's main mortgage. I don't think that was fair, given that it knew the reversion rate would contractually apply to Mr M's main mortgage just over two years later. It isn't clear what the reversion rate on Mr M's main mortgage was, but in October 2021 interest rates generally were lower than they are now, and mainstream lenders' standard variable rates were generally around 4%.

Even using a very conservative reversionary rate of 3% on which to base the stress test would have shown that the loan wasn't sustainably affordable. Adding the FPC's recommended 3% to that would have given an interest rate of 6% and monthly mortgage payments of more than £700 – and, based on the rest of Tandem's affordability assessment, a negative amount of free cash each month.

I don't consider that Tandem fairly considered likely future interest rates on Mr M's existing first charge mortgage, taking into account the rules of mortgage regulation, when it decided to lend him the secured loan. Had it done so, I think it would have been clear that the loan wasn't sustainably affordable, and it follows that I don't think Tandem should have lent Mr M the loan.

In reaching that conclusion, I have kept in mind that Tandem wasn't responsible for advising Mr M on the suitability or otherwise of this loan for his needs. It was for the broker who recommended the loan to Mr M to do that. It was however for Tandem to decide whether or not to lend and to do so responsibly. I have also kept in mind that by repaying existing unsecured debts the loan reduced Mr M's monthly outgoings by around £120 – but that of itself doesn't mean the new loan was affordable or sustainable, and it also resulted in those debts becoming secured on his property.

Mr M's credit file shows that he took out a number of new unsecured loans and credit cards soon after taking out the loan with Tandem and he has since entered into an IVA, having been unable to maintain payments to all his debts. While he has continued to make payments to the Tandem loan, that doesn't mean the loan was affordable or that it was lent to him responsibly. In all the circumstances, I've concluded that it wasn't, so I'm upholding this complaint.

Putting things right

I think it's fair for Mr M to repay the capital he borrowed as he has had use of that money, but he shouldn't have to pay any interest, fees or charges associated with the loan. I make no award for distress or inconvenience, because as a result of Tandem removing the loan

interest and fees, Mr M will have paid no interest on the loan having used it to consolidate other interest-bearing debts.

While he entered into an IVA just over a year after taking out this loan, he would still have been required to pay interest on his other debts in the interim, and any saving from refunding interest and charges on this loan outweighs any award I might have made for distress and inconvenience.

In settlement of this complaint, Tandem Home Loans Ltd should bring the loan agreement to an end. It should remove all interest and charges added to the balance, including fees paid to lender and broker, so that the starting balance is only the amount released direct to Mr M or paid direct to his creditors. It should then apply all the payments Mr M has made to date as reductions to the capital balance, without interest being charged, and update Mr M's credit records with the reduced balance.

Tandem should work with Mr M to come to an affordable payment arrangement for the remaining capital sum without further interest. It can retain the charge over his property until the capital is ultimately repaid.

It's for Mr M to ensure that he complies with the terms of his IVA, so he will need to let his supervisor know about the outcome of this complaint.

My final decision

My final decision is that I uphold this complaint and Tandem Home Loans Ltd must put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 27 October 2025.

Janet Millington
Ombudsman