

## **The complaint**

Mrs D and Mr M complain that Preferred Mortgages Limited has overcharged interest and fees on their mortgage, administered the mortgage poorly and reported information unfairly on their credit files.

## **What happened**

Mrs D and Mr M took out their mortgage with Preferred in 2006. They borrowed around £125,000 on an interest-only basis over a term of 25 years. The mortgage was on a fixed interest rate of 6.49% until October 2008, followed by a variable rate of the London Interbank Offered Rate (LIBOR) plus 2.55% for the rest of the term.

Mrs D and Mr M unfortunately experienced some financial difficulty soon after taking out the mortgage. In 2008 Preferred took legal action because of the mortgage arrears. The court granted a suspended possession order (SPO) requiring Mrs D and Mr M to pay the contractual mortgage payment plus £200 towards the arrears each month.

In 2015 Preferred took legal action again. The court varied the SPO, and required Mrs D and Mr M to pay the contractual mortgage payment plus £50 towards the arrears each month.

Mrs D and Mr M have made a number of complaints to Preferred and to Acenden, which is administering the mortgage on Preferred's behalf, over the years about how they have dealt with them and their mortgage. They say they haven't had satisfactory answers, and they're very unhappy that the mortgage balance is now higher than the amount they borrowed. They have complained in summary that:

- The interest rate they have been charged is too high and unfair, and Preferred should have offered them an alternative to synthetic LIBOR (or lender synthetic LIBOR rate as Preferred describes it – LSLR) when LIBOR ended.
- They're "mortgage prisoners". They have asked for new interest rate products over the years but have always been told Preferred doesn't offer new rates, and they don't think this is right.
- Arrears fees have been added to the mortgage unfairly when they were making payments under agreed arrangements. They have had some refunds but are entitled to more.
- Preferred shouldn't have taken court action again in 2015 because they hadn't missed a payment in the preceding six years, and it gave wrong information at the hearing but still charged them for the hearing.
- They pay Preferred for their buildings insurance but it has applied payments intended for the insurance to the arrears instead, without telling them and without their agreement, and it hasn't been able to explain satisfactorily how the mortgage balance is made up.
- Preferred stopped reporting the mortgage on their credit files after the mortgage

defaulted in 2007. The default ended six years later, in 2013, but Preferred didn't resume reporting the status of the mortgage again until 2018 and this has had a significant adverse impact on their credit scores.

Preferred, often through its administrator Acenden, said it had sent Mrs D and Mr M multiple final response letters to their complaints since 2010, giving its answer to the complaints and letting them know they could refer complaints to the Financial Ombudsman Service as long as they did so within six months. It said it had sent its final response to all of the complaint points listed above apart from Mrs D's and Mr M's complaint about the mortgage interest rate, and it had set the rate in line with the mortgage terms. In October 2024 it also responded to Mrs D's and Mr M's complaint about the insurance premium arrears not showing on a statement it sent them. It sent them another statement listing all the transactions on the mortgage since inception instead, and offered them £100 compensation.

Mrs D and Mr M weren't happy with that and referred their complaint to us. Our Investigator said we couldn't look into most of their complaint points because either they had contacted us too late or we had considered a complaint before. He went on to consider the complaint about the interest rate applied to the mortgage in the six years before Mrs D and Mr M complained about it. He also considered their complaint about the information on the recent arrears statement. He concluded that Preferred had made a fair offer of compensation.

Mrs D and Mr M asked for a review. They said they had never had proper answers to their complaints and had been worn down by Preferred's behaviour and lack of support. They still want their complaints investigated. They were also unhappy that Preferred had put six missed payments on their credit files in 2021 and said they would raise that as a fresh complaint.

I issued a decision confirming which parts of this complaint I can consider. I said that parts of Mrs D and Mr M's complaint are time-barred and part of it should be dismissed without further consideration because we had already dealt with it. I concluded that I can only consider their complaints about the fairness of the interest rate applied to their mortgage since January 2018 (bearing in mind earlier variations in the rate as part of all the circumstances of the complaint) and about a statement not including insurance arrears. This decision is to set out my findings about those elements of 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.

I'll deal firstly with Mrs D and Mr M's complaint about the fairness of the interest rate Preferred has charged them on the mortgage since 2018.

Mrs D and Mr M's mortgage offer says that a fixed interest rate would be in place until October 2008. From then on, the offer says the rate for the remaining term of the mortgage would be a variable rate of 2.55% above LIBOR. The mortgage conditions provide more detail about the frequency of interest rate reviews.

Preferred did nothing wrong in using LIBOR as the reference rate for Mrs D and Mr M's mortgage once the fixed rate ended. That was in the contract Mrs D and Mr M signed up to when they took out the mortgage. However, when LIBOR stopped being published Preferred needed to decide on a replacement. The replacement rate it decided on is LSLR. Mrs D and Mr M have said that Preferred could have chosen to use a fairer rate. The regulator of financial services, the Financial Conduct Authority, said replacing LIBOR with LSLR was a fair approach for lenders to take. I see no reason to take a different view in this case. And

the interest rate margin Preferred has applied to Mrs D and Mr M's mortgage is the same as the one it had been applying before, as set out in their contract, 2.55%.

Preferred hasn't offered Mrs D and Mr M a new fixed interest rate to replace the LIBOR tracker rate. Preferred doesn't offer new fixed rates to existing customers, and so Mrs D and Mr M haven't been treated less favourably than any other Preferred customer. I also note that the tracker rate of 2.55% above LIBOR is a relatively low rate and if Preferred did offer new fixed rates, those rates (or the reversion rate that would follow) wouldn't necessarily have been any lower.

I'm satisfied that Preferred has operated the interest rate on Mrs D and Mr M's mortgage in line with the mortgage terms and once LIBOR ended, its decision about what replacement rate to use was reasonable. I don't therefore think there is any basis on which I can find that Preferred has charged interest unfairly since January 2018.

Secondly, I can also consider Mrs D and Mr M's complaint about the information Preferred gave them in 2024 about the "Other Amounts Due" balance on their mortgage. Preferred sent them a statement in July 2024 which didn't include the insurance arrears. It has since apologised and sent them a statement listing all the fees and charges applied over the life of the mortgage. It has also offered them £100 by way of compensation.

Preferred has accepted that the statement it sent caused some avoidable confusion, and I agree. In all the circumstances, I think it has made a fair offer to resolve this part of Mrs D and Mr M's complaint. I don't consider that I can fairly require it to increase its offer of compensation.

### **My final decision**

My final decision is that Preferred Mortgages Limited has made a fair offer to settle this complaint. It should pay Mrs D and Mr M £100 compensation if Mrs D and Mr M accept this decision and if it hasn't already done so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D and Mr M to accept or reject my decision before 9 June 2025.

Janet Millington  
**Ombudsman**