

The complaint

Mr and Mrs Y complain that Intrum Mortgages UK Finance Limited has charged them an unfairly high rate of interest on their mortgage account. They complain they've been overcharged for years and would like the rate reduced to a fair rate that reflects the Financial Conduct Authority's (FCA's) principles.

What happened

Mr and Mrs Y took out an interest only mortgage with a lender called Heritable Bank in August 2004. The mortgage was taken out on a fixed rate of 6.49% plus an additional margin of 0.5% until 1 July 2006. The mortgage offer said that after that date the interest rate would be the Self Certification Variable Interest Mortgage Rate (SCVR) (which was 6.74% at the time), plus an additional margin of 0.5%, giving a revised rate of 7.24%. I'll refer to this as account 1.

In February 2006, Mr and Mrs Y took out £42,000 of additional borrowing that was set up as a separate mortgage account. That account was on a repayment basis (although it's since been switched to interest only). The interest rate was fixed at 5.99% until 1 March 2008. After that date the interest rate would be the Self-Certified Variable Interest Mortgage Rate (which was 6.49% at the time). I'll refer to this as account 2.

In October 2008 Heritable Bank went into administration, and so Mr and Mrs Y's mortgage was serviced by administrators. In April 2009, the administrators wrote to Mr and Mrs Y to tell them the discount on their mortgage rates had expired. The letter said account 1 would be charged at a variable rate of 4.74% plus the 0.5% margin (making 5.24% in total), and account 2 would be charged a variable rate of 4.74%.

On 17 May 2013, Mars Capital wrote to Mr and Mrs Y to tell them they had taken over as owners of the mortgage account on 15 May. Following the transfer, Mars Capital became the legal owner of the mortgage and acted as Mr and Mrs Y's lender. Mars Capital have since changed their name to Intrum and so, for ease, I will refer to them as Intrum throughout this decision.

Mr and Mrs Y have made several complaints about their mortgage over the years. Below I'll set out the complaints made about the interest rate.

On 21 October 2010 Mr Y complained that the interest rate had increased unfairly. Heritable Bank's administrator responded and explained the risks and uncertainties prevalent in the economy had caused them to take a commercial decision regarding the interest rates they charged on its mortgages. The letter said Mr and Mrs Y could refer their complaint to our Service but had six months to do so. Although our records don't go back that far, I've not seen evidence to suggest they referred the complaint to us at the time.

In March 2018 Mr Y complained that the mortgage was on a variable rate, but there hadn't been a reduction in the rate since 2008. Intrum issued a final response letter on 21 March 2018. They said there had been changes to the interest rate charged on Mr and Mrs Y's mortgage since 2008, and the rate had varied in line with the SCVR (plus the 0.5% margin for account 1). The letter said Intrum didn't offer any alternative interest rate products, and the mortgage would continue to be serviced on the original mortgage terms. They also said that Mr and Mrs Y could refer their complaint to our service but only had six months to do so.

from the date of the letter. Again, I've seen no evidence to suggest they referred the complaint to us at that time.

In July 2022 Mr Y complained that Intrum had failed to give him and Mrs Y notification of a change to the interest rate. He also complained that the rate was unfair and unreasonable. Intrum issued a final response letter on 2 September 2022. They said that notification of the change in interest rate had been sent to Mr and Mrs Y in their monthly statement. They said Intrum is not a mortgage lender, they manage loans that they purchase until the loan is repaid. They said they don't have their own SVR but are responsible for setting and changing the interest rates on the accounts. They said the rate will change in line with market trends which ensures Mr and Mrs Y would not be left on a rate that remained static and would benefit from any interest rate reductions but will also see an increase to the rate should wider interest rates continue to rise.

Mr Y complained again in October 2022. He specifically complained about the following:

- Intrum have charged an unfairly high interest rate as they bought the mortgage at a discount and are not a lender. They had no justification to follow market trends when calculating interest rates as it's not subject to wider market forces.
- There is a different rate charged on each mortgage account. He agreed with Heritable Bank that the 0.5% additional rate would only be paid for a specific period but the extra 0.5% has continued to be charged.
- Intrum have not reduced the interest rate charged on the mortgage when rates elsewhere have been much lower but have increased the rate when rates have gone up.

Intrum sent a final response letter on 7 December 2022. They said the price they purchased Mr and Mrs Y's mortgage accounts for had no bearing on the remaining balances or interest charged. They said the interest rates charged on the mortgage accounts were not tracker rates and do not solely track Bank of England base rate. However, the base rate would influence their decisions when calculating the SCVR.

Intrum also said there was no evidence Heritable Bank had agreed the 0.5% margin would only be applied for a certain period of time. The mortgage offer for account 1 said the margin would continue after the end of the discount period. The interest rate had decreased in December 2016, August 2019, April 2020 and May 2020 so they could not agree that the rate hadn't ever reduced.

Mr and Mrs Y contacted our service in January 2023. Mr Y told us that he was experiencing financial difficulty and had also been unwell. He said they were unable to re-mortgage as a result of his age, but they couldn't afford the mortgage payments any more as the rate keeps increasing. He didn't think Intrum was treating them in line with the principles set by the FCA as they were charging them such a high interest rate.

Intrum said it wouldn't give our service consent to consider any of Mr and Mrs Y's complaints that had been referred more than six months after the final response letter was sent.

Intrum said that whilst Mr Y was living in the security property, this was originally a commercial mortgage and therefore the rate hasn't followed the interest rate for residential mortgages. They said there was no link between the Bank of England base rate and the SVR charged on Mr and Mrs Y's mortgage. They also said they were only responsible for the interest charged since they took over the loan in 2013.

Mr Y said the unfairly high interest rates resulted in him and Mrs Y falling behind on their mortgage payments and so more interest has been charged on arrears. He said this has also impacted their credit rating which is causing more problems. He also explained how much stress Intrum's actions had caused.

Our investigator wasn't persuaded Intrum had varied the interest rate in line with the terms and conditions of Mr and Mrs Y's mortgage. So she asked them to re-work the mortgage accounts to put that right. Intrum didn't agree. As a resolution could not be reached, the complaint was passed to an Ombudsman to decide.

The previous Ombudsman sent a provisional decision where she established that we would be able to consider the following complaint points:

- Intrum has charged an unfairly high rate of interest on the mortgage since 21 March 2018.
- Intrum has unfairly applied a 0.5% margin to the interest rate charged on account 1 from 8 July 2016 onwards.
- As a result of Intrum overcharging Mr and Mrs Y, the relationship between them and Intrum became and remains unfair – taking into account interest charged throughout the life of the loan.

It was also explained that in order to consider what is fair and reasonable in all the circumstances, we need to consider all the circumstances. We need to look at the impact of what may or may not have contributed to the interest rate – including things that happened before the time which influence the rate charged at that time. I'm satisfied that's an essential part of determining whether or not the rate charged from 21 March 2018 onwards was fair and reasonable in all the circumstances.

Since the previous provisional decision was issued, Intrum have provided us with further information. They said:

- Mr and Mrs Y were provided with mortgage conditions from 2004 and 2006 alongside the mortgage offer. These confirm that rate increases were allowed for movements of interest rates outside of the Bank of England base rate and therefore not limited to linkage with that rate.
- The legal title for Mr and Mrs Y's mortgage was transferred to Intrum in July 2013 after which Intrum assumed rate setting oversight. During their tenure as legal title holder, they relied on multiple conditions with the primary driver being a link to the cost of funds of the beneficial owner. They said that beneficial interest in the assets is held by their clients, who contract with Intrum as the legal title holder and regulated servicer to administer the accounts on their behalf.
- Since 2013, the loans have been within various structured credit portfolios including private and public transactions. The cost of funds within each of these transactions has been the primary driver of rate changes and was linked to market rate including The London Inter-Bank Offered Rate (LIBOR) and Term SONIA Reference Rate (Sterling Overnight Index Average). LIBOR was a forward looking rate until the cessation of its publication when the loans migrated to Term SONIA which is a quarterly compounded rate in arrears.

Intrum explained that the cost of funds wasn't driven by Intrum, but rather by the beneficial owners and linked to market rates such as Bank of England base rate and LIBOR. They provided information which evidenced that the rates moved in line with those market rates.

Intrum also provided us with evidence that they are permitted under Mr and Mrs Y's contract to adjust interest rates to reflect change to the beneficial title holder's cost of funding. They acknowledged that this has taken a very long time to try and resolve and this would have had an impact on Mr and Mrs Y, so they said if we agreed with their approach, they would be happy to pay £750 for the inconvenience caused.

Mr Y has told us again that he believes Intrum has breached FCA principles and as Intrum are not a lender, there is a vast difference between a debt collector and an actual lender. He

said Intrum bought his mortgage at a 30% discount and can't see how it would be affected by cost of funding issues.

My second provisional decision

I issued a provisional decision on 12 June 2025. I said:

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

Having reviewed everything carefully, I agree with the parts of the complaint that we are able to consider, for the reasons given by the previous ombudsman. As that's the case, and because the submissions since then have focussed on the merits of the complaint, I don't think it's necessary for me to go into detail about our jurisdiction in this decision. Instead, I'll focus on the merits of the complaint.

I'd firstly like to acknowledge that this is a complex case and as such has taken some considerable time to reach this point and I thank Mr and Mrs Y for their patience in the matter. I'm also sorry to hear about the challenging time that Mr and Mrs Y have been going through and the impact this has had on Mr Y's health.

0.5% additional margin on account 1

I have firstly taken a look at the original mortgage offer dated 19 August 2004. This offer confirms a fixed rate of 6.49% until 1 July 2006 plus an additional margin of 0.5% giving an interest rate of 6.99%. It says after this date the interest rate will be the Self Certification Variable Interest Mortgage Rate which was 6.74% at the time, plus an additional margin of 0.5% giving a revised interest rate of 7.24% (at the time).

The mortgage offer does make it clear that once the initial fixed rate ended (which included the additional margin of 0.5%) that an additional margin of 0.5% will be charged and added to the Self Certification Variable Interest Rate. So I can't find that Intrum have charged the additional margin unfairly.

Interest rates

Moving on to the interest rates, there have been several interest rate changes that have happened on Mr and Mrs Y's mortgage over the years.

The crux of this complaint is about whether Intrum charged Mr and Mrs Y an unfairly high rate of interest. In deciding whether the rate was fair, a key consideration is whether the changes they made were changes they could make based on their terms and conditions.

The relevant provisions are as follows:

"we, us and our Heritable Bank Limited and anyone who may take over our legal rights under the mortgage in the future as described in Section 4".

This comes in the definitions section, and means that wherever the words "we, us or our" are used in the terms and conditions, they mean either the original lender Heritable or anyone to whom Heritable's rights have been transferred in accordance with section 14.

Under section 14 "Transfer of the mortgage", it states:

14.1 You agree that we may transfer, charge or dispose or assign;

14.1.1 The mortgage and these conditions;

14.1.2 Any other security; and

14.1.3 Any guarantee in relation to this advance given to us by a guarantor.

(either in law or in equity) in part or in whole (including the benefit of any individual rights) to any person (“transferee”) in any way we consider to be appropriate without first seeking your permission.

The reference to “in law or in equity” and to transfer “in part or in whole” means that either legal title, beneficial interest or both can be transferred, either together or separately. The holder of legal title means the party which owns the mortgage and acts as lender. The holder of the beneficial interest means the party which is entitled to receive the benefit of any payments Mr and Mrs Y might make. It’s not unusual in the mortgage market for the two to be separated. The beneficial interest of a loan might be sold on – securitised – to, for example, allow the legal title holder to raise further funds to lend to new customers. Or, as here, where the original lender withdraws from the market, the beneficial interest might be acquired by an investor which appoints a third party to act as legal title holder and manage the mortgage.

In this case, when the mortgage was taken out, it was owned in full by Heritable. But after Heritable went into administration, the administrators sold the mortgage to third party investors – the investors retained the beneficial interest, and Intrum (then Mars Capital) acquired legal title to manage the mortgage, collect the payments, and pass the benefit on to the beneficial owner. As I say, this is not unusual in the mortgage market.

I’m therefore satisfied that Mr and Mrs Y’s mortgage was validly transferred from Heritable Bank, and that it was split into the legal and beneficial interests. Intrum became the legal owner. Where, in the rest of the terms and conditions, there is reference to “we”, “us” or “our”, this could refer to either Intrum, the beneficial owner, or both.

With that in mind, I’ve then looked at the section about changing the interest rate within the terms and conditions.

It says:

“2.4.4 We may increase our standard variable rate because:

...

(b) the cost to us of borrowing funds has increased or we reasonably believe it is likely to do so”.

The term “we, us and our” includes anyone who has taken over the mortgage, in this case Intrum as legal owner – or, as I’ve explained, the beneficial owner. That means that both Intrum’s costs and the beneficial owner’s costs can be taken into account in setting the interest rate.

Intrum has explained that while their own costs didn’t change, those of the beneficial owner did – and those changes were passed on in the form of changes to the interest rate. Having considered further evidence and argument, I think these terms and conditions do allow Intrum to vary the interest rate because the beneficial owner’s costs have changed. That’s something permitted by the contract.

I’ve then gone on to consider the interest rate charged and whether the changes to the rate have varied in such a way that they do not reflect changes to the beneficial owner’s costs. Intrum said it doesn’t have access to detailed information about the costs of the beneficial owner as a third party, but that their costs of raising funds change from time to time and were linked to LIBOR and Term SONIA and not linked to the Bank of England base rate.

A reference rate is generally considered a reliable proxy for market rates – like LIBOR and Term SONIA. These are a representation of the underlying market due to factors such as credit risk and volatility. Intrum chose to track LIBOR, and then Term

SONIA once LIBOR ceased to exist. More recently, and for greater transparency, it has moved to tracking the Bank of England base rate instead.

I've looked at the information that Intrum have provided, and I'm satisfied that they have shown that the interest rate has varied in line with LIBOR, Term SONIA and then Bank of England base rate. I'm satisfied that Intrum had the right to vary the interest rate to reflect changes in the cost of funds of the beneficial owner. I agree that the LIBOR, Term SONIA and Bank of England base rate reference rates provide a reasonable proxy for the cost of borrowing funds faced by the beneficial owner. For that reason, I'm persuaded that the interest rate has not varied unfairly.

I know that Mr and Mrs Y will be disappointed with my decision. I'll consider any further comments they make in response to this provisional decision before I make a final decision on the matter.

I note that Intrum have offered to pay Mr and Mrs Y £750 in recognition of the time taken to try and resolve this complaint. Bearing in mind all the circumstances, including the time taken to provide a clear explanation justifying the interest rate that was charged and the impact of that on Mr and Mrs Y, I think that's a fair offer.

I would encourage Mr and Mrs Y and Intrum to engage with each other to see if there are any other viable options available to bring this mortgage back on track. It may also be beneficial for Mr and Mrs Y to seek independent financial advice on the matter to see what options may be available to them.

Developments

Intrum responded to the provisional decision and were satisfied with the outcome.

However, Mr Y responded and didn't agree. He made the following comments:

- The Ombudsman says this is a complex case and then simply reduces the decision to being that Intrum can set whatever rate they like.
- The investigator's opinion was that Intrum acted unfairly, and should pay them compensation. The fundamentals have not changed so why has the decision?
- The Ombudsman refers to other rate measures and in comparison terms, LIBOR, Term SONIA and Bank of England were running at the same rate. The dispute is based on FCA rules – unfair rate setting. There is a breach of these rules as the original interest rate was 6.5% to 7.5% at a time where LIBOR and Term SONIA were around the same as they are today. So a charge of 4% more than the original rate is unfair.
- Intrum took over from Heritable bank, so a customer would expect the same operation of the product from when it was originally taken out. Heritable bank set rates at a time when the Bank of England base rate, Term SONIA and LIBOR were around 5%. They were not charging in excess of 10% as Intrum are doing now.
- It is vital to look at what is being done in comparison to when the product was taken out from the point of fairness and how the product is reasonably expected to perform against the FCA rules.
- It cannot be fair to charge 4% higher than when the mortgage was taken out, particularly when the actual amount paid by Intrum for the mortgage was discounted, making the actual true rate of interest on their outlay around 12 to 13%.
- The FCA says the lender may have the right to increase the rate of the mortgage. But if the lender uses that right to take advantage of the fact that a customer will be trapped as a 'mortgage prisoner' that would be a breach of the rules. Mr and Mrs Y said they are mortgage prisoners and have nowhere to go because of their age and their credit history.

- Mr Y made several comments regarding the expectations of product performance based on comparing market conditions at the beginning and what they are now.
- Mr Y also questions why Intrum are offering to pay £750 if they did nothing wrong.

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'd like to reassure Mr and Mrs Y that I have taken into consideration everything they have said and thought carefully about the arguments they have made. If I don't comment on any specific point, it's not because I've not considered it but because I don't think I need to comment on it in order to reach the right outcome.

Mr and Mrs Y are unhappy because the investigator originally upheld this complaint, and they think that this change in outcome is unfair because they believe that Intrum have been charging an unfairly high rate of interest.

I do appreciate that it's taken a considerable amount of time to reach this decision but as we have explained previously, we have received more detailed information from Intrum since the investigator's view which has changed what I think about this case. I understand why this is disappointing to Mr and Mrs Y, but I have to take into account all the relevant evidence.

This is the reason why Intrum are offering Mr and Mrs Y £750; because they have acknowledged that it's taken them some time to provide our service with exactly what we have been asking them for – which was information about their reasons as to why they varied the interest rate on Mr and Mrs Y's mortgage as they did. They recognise that the delay and change in outcome will have caused Mr and Mrs Y substantial upset and have offered compensation for that. I think that's fair.

Intrum have now explained why the increases happened and those increases happened because the cost to them of borrowing funds had increased. I'm persuaded by the evidence they have provided that the mortgage interest rate has changed to reflect changes in the costs of funds of the beneficial owners.

This change in interest rate is allowed as it's one of the clauses in the terms and conditions which says:

“2.4.4 We may increase our standard variable rate because:

...

(b) the cost to us of borrowing funds has increased or we reasonably believe it is likely to do so;”.

Mr and Mrs Y argue that the mortgage product should operate in the same way as it did when the mortgage was taken out. But Heritable bank went into administration, so the administrators sold the mortgage to third party investors who retained the beneficial interest. The costs to those beneficial owners changed which is why the interest rates that Intrum set increased. This is something that is permitted by the mortgage contract so I can't say that Intrum varied the interest rate unfairly.

Mr and Mrs Y have said they are 'mortgage prisoners' as they are unable to remortgage due to their age and the impact this has had on their credit history. I'm sorry to hear about the situation that they find themselves in. I appreciate due to the interest rate increases that they haven't been able to maintain their monthly payments, but I haven't found that Intrum varied the interest rates unfairly. Intrum didn't put any barriers in Mr and Mrs Y's way that would

have stopped them from moving their mortgage to another lender but I appreciate this may now not be possible. If Mr and Mrs Y are struggling with the monthly payments they should discuss this with Intrum in the first instance – Intrum are required to act fairly and show appropriate forbearance to borrowers experiencing financial difficulty.

As I said before, they should engage with Intrum to see if there are any viable options to bring the mortgage back on track and Mr and Mrs Y may also want to seek independent financial advice on the matter to see what other options may be available to them.

I'm sorry to disappoint Mr and Mrs Y but for the reasons given above and in my provisional decision, I don't consider that Intrum acted unreasonably in the way they varied the interest rates on Mr and Mrs Y's mortgage

My final decision

For the reasons given above, I find that Intrum Mortgages UK Finance Limited has made a fair and reasonable offer to settle this complaint and direct them to pay Mr and Mrs Y £750 for the inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Y and Mrs Y to accept or reject my decision before 28 July 2025.

Maria Drury
Ombudsman