

## **The complaint**

G – a limited company – complains that Pepper (UK) Limited mis-calculated the redemption figure for its commercial mortgage. G says it's paid too much as a result of this and is also unhappy with the explanation Pepper provided, which it says was not easy to understand.

## **What happened**

G took out a commercial mortgage with a lender I'll refer to as 'Lender C' in June 2001. G borrowed £198,340 plus fees of £2,033.40, which were added to the loan. The mortgage was to be repaid over a term of 25 years on a capital repayment basis.

The mortgage was transferred to Pepper in April 2021. From June 2021 onwards, when Pepper sent annual (or ad-hoc) statements to G they showed a "fees balance" of around £2,000 – something that had not previously been included in the statements from Lender C.

G redeemed the mortgage in full in February 2024 by paying the amount set out by Pepper in a redemption statement.

A few months later G complained to Pepper as it was concerned that the redemption statement had included fees and charges of £2,220.57. G was also concerned about the impact this had had on the amount of interest charged and it was unhappy with the information provided by Pepper, which it felt had been conflicting and confusing.

Pepper responded to G's complaint in August 2024. It said that the outstanding balance was correct, as it remained the same when the mortgage transferred from Lender C to Pepper. But Pepper accepted that by separating the fees from the capital balance, additional interest had been charged on the fees balance. It therefore said it would refund £219.66 of "additional interest" that had accrued since the mortgage was transferred to Pepper. Pepper also accepted that the information provided by its agents wasn't satisfactory and wasn't clear and concise. It said it would arrange for a payment of £150 to be made to G, to compensate it for the poor service provided.

G didn't agree and asked the Financial Ombudsman Service to look into the complaint. Our Investigator didn't think the complaint should be upheld. He didn't think the overall balance of G's mortgage was incorrect. He did think Pepper had caused some confusion in the way it presented information about the fees balance. And that Pepper had charged additional interest on the fees balance. But he concluded that Pepper had made a fair offer to put things right and he didn't think it should do anything further.

G didn't accept that and asked for an Ombudsman to decide on their complaint, so it's been passed to me to decide. I reached a different outcome to the Investigator, so I issued a provisional decision.

## **My provisional decision**

I said:

“Having done so, I agree with G that the information provided to it by Pepper has been confusing. When Pepper took over the loan, it decided that it would show a separate fees balance on G’s mortgage statements, made up of fees applied to the mortgage mostly at inception. These fees appear to have included an application fee, CHAPS fee and non-block buildings fee.

However, as G has pointed out, these fees were added to the original loan and repayment of them should have been included in the contractual monthly payment. In other words, if the fees at inception of the mortgage were around £2,000, then by February 2024 – when the mortgage was redeemed and there were only just over two years remaining on the mortgage term – the fees balance remaining should have been much lower. This is how I would have expected it to look on the mortgage statement.

What I think has happened is that it wasn’t clear to Pepper at the point the loan transferred from Lender C how much of the “fees balance” was remaining. The internal notes it’s provided to this Service appear to support that. So instead of calculating what the fee balance would be and showing this accurately on the monthly statements or simply not splitting the fees from the capital balance, it decided to split the fees balance from the capital balance based on the amount of fees at inception of the mortgage. This was then shown differently on annual statements, for example, compared to the information provided to G by Lender C previously. And I consider its decision to do this has caused unnecessary confusion.

That said, I’m satisfied having looked at the transaction history of the mortgage that the way Pepper decided to show the fees balance on its statements didn’t alter the total account balance. The fees balance while shown separately from the account balance on annual and ad-hoc statements, it formed part of it. That is, the fees balance amount had already been included in the account balance figure and the total amount payable. So, I’m satisfied that the overall balance was still the same as it was with Lender C when Pepper took over the account.

I appreciate the fees balance was separated from the “current balance” in the redemption statement. But the total amount owing on the redemption statement was made up of the current balance, fees and interest. And again, I’m not persuaded the total balance was incorrect because the fees balance still formed part of the total amount due. I hope this reassures G that Pepper didn’t increase the balance of the mortgage, for example by adding new fees or charges, when it took over.

That isn’t the end of the matter, however. The terms of this mortgage set out that the fees could be added to the mortgage balance at inception, which they were. And, where this was the case, the contractual monthly payment was to be calculated to include repayment of the fees over the mortgage term. That means that each month when G made the monthly payment, the fees balance should have reduced.

It appears that this was happening when the mortgage was with Lender C, up until around January 2020. Pepper hasn’t been able to provide an explanation for why Lender C stopped including the fees balance when calculating the monthly payment. But it has said that when it took over the loan it separated the fees balance and didn’t include it when calculating the monthly payment either.

That isn’t how this mortgage was meant to operate. Had the monthly payments been calculated correctly from January 2020 onwards then – apart from the period where G had a payment holiday – I am satisfied G would have made the higher monthly payment required. This, therefore, means that G’s mortgage has been underfunded

since January 2020 because if G was being asked to make the correct payments, the balance would have reduced more quickly. And this, in turn, would have reduced the amount of interest charged.

I note the annual statements sent by Pepper included a section that explains where there is a fee balance, additional payments will need to be made in excess of the contractual monthly payment to clear it. I've thought about whether this was sufficient in the individual circumstances of this case to show G that it wasn't paying enough. I don't think it was, initially. But over time I think the growing fees balance on the annual statements, alongside the section explaining it'd need to be covered separately, ought to have alerted G that it wasn't paying enough.

For example, the June 2021 annual statement shows a fees balance of £2,016.04. This increased to £2,046.63 in June 2022 and to £2,128.40 in June 2023, based on an ad-hoc statement provided to G in September 2023. The redemption statement showed the fees balance as having increased again to £2,220.57 by February 2024.

I consider that by the time of the third statement, provided in September 2023, G ought reasonably to have become aware that something wasn't right or wasn't as it was expecting. By that point the fees balance had increased by almost £100 since 2021. G was expecting the monthly payment to reduce the entire mortgage balance, including any fees. What was happening was the opposite of G's expectations as the fees balance was increasing. So, I think it's fair to say that G ought reasonably to have been aware of and could have mitigated the situation from September 2023 onwards. I will need to keep this in mind when deciding what Pepper should do to put things right.

### **Putting things right**

Pepper has already refunded some of the interest it charged to G on the fees balance – £219.66. And it says this is a fair way to put things right, alongside its offer to pay G £150 in compensation. But I don't currently consider that this is a fair outcome to this complaint. It does not take into account that the mortgage was underfunded from around January 2020, nor does it fully consider the financial loss G has incurred as a result.

I provisionally consider that a fair way to put right what's happened regarding financial loss, is for Pepper to rework the account as if the correct payments had been paid from January 2020 until September 2023. It should then calculate the difference this would have made to the final redemption balance and refund any resulting overpayment to G. I do not currently consider it should rework the account based on correct payments being made after September 2023, as by then I think G ought reasonably to have known there was a problem and could have mitigated the situation.

I'm also not persuaded Pepper's offer of £150 fairly recognises the amount of inconvenience caused to G by being given unclear, confusing and sometimes incorrect information. Those factors have led to G having to continue pursuing the matter, while receiving further conflicting explanations. Had clear and correct information been provided from the outset and had the account not been underfunded, G would not have needed to do so. Because of this, I provisionally consider that Pepper should pay G £250 in recognition of the inconvenience experienced.

I appreciate G would like Pepper to refund around £2,000, representing the fees balance that was showing on the mortgage statements. However, for the reasons I've explained above, it would not be fair for me to require it to do that. I am not persuaded G has incurred a financial loss of £2,000. I am persuaded, however, that it has incurred a financial and non-financial loss as I've set out above.

To put things right I intend to direct Pepper to do the following:

- Pepper should calculate what the end balance of the mortgage would have been had the monthly payments correctly included a payment towards the fees balance, from January 2020 to September 2023.
- Once it has done that it should refund the difference of what the end balance was against what it should have been to G, along with 8% simple interest\* from the date the mortgage was redeemed to the date of settlement. Pepper may deduct from this amount the £219.66 of interest it has previously refunded to G.
- Pay G £250 to recognise the inconvenience caused by this matter (minus the £150 already offered if it has already been paid to G).

\* If Pepper considers that it's required by HM Revenue & Customs (HMRC) to deduct tax from the interest refund, it should tell G how much it has taken off. It should also give G a tax deduction certificate if it asks for one, so it can reclaim the tax from HMRC if appropriate."

### **Responses to my provisional decision**

I invited G and Pepper to let me have any further comments or evidence they wanted me to consider before I make my final decision.

Pepper sought clarification on whether I had considered an updated settlement offer it had made – this was to refund a further £95.66 to G as a gesture of goodwill. It didn't raise any other points.

G disagreed. It said, in summary:

- It had objected to the charges of £2,220.57 shown on the redemption statement at the time, but didn't want to delay its remortgage. So, its concerns about these charges weren't an afterthought.
- It disagrees that Pepper had separated the charges from the account balance and has referred to the opening and closing balance of several statements Pepper previously sent.
- It questions how it can be correct that Pepper added charges to the redemption figure when it wasn't entitled to do so.
- Pepper deciding to show the charges separately was clearly for its own purpose as there was no legal reason for it to do so.
- Pepper's internal notes I mentioned in my provisional decision are not legal documents and could have been erroneous. And if Pepper was unable to explain what's happened and couldn't get an explanation from the previous lender, then the benefit of the doubt should be in G's favour – because G has

provided evidence.

- It questions how more charges have accrued over the mortgage term if they were included in the loan initially and what legal right Pepper has, to add charges of £2,220.57 when G redeemed the mortgage. G would like to receive a statement of the account from 1 April 2023 to 28 February 2024.
- It disagrees that Pepper calculated the monthly payment incorrectly.
- It doesn't expect any charges to have been applied, other than interest accrued, during the period a covid payment holiday was agreed.
- I have erroneously concluded that the charges of £2,220.57 added to the redemption amount were correct.

### **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 can confirm that I considered Pepper's updated settlement offer before I made my provisional decision. Pepper calculated that G had been charged an additional £95.66 in interest due to it not including payment towards the fees and charges balance when calculating the monthly payment – not the £219.66 it had already offered to refund. It said it would refund both amounts as a gesture of goodwill due to all the confusion.

However, I wasn't persuaded this was a fair way to put things right in all the circumstances of this complaint, as it didn't take into account the capital that would have been repaid, had the monthly payments been calculated correctly – nor was it what G was seeking as a resolution. So, I issued my provisional decision explaining what I considered was a fair way for Pepper to put things right. I accept that I could have been clearer on this point, and I apologise for any confusion caused by that.

I appreciate G feels strongly that Pepper incorrectly applied additional charges of over £2,000 to its mortgage. However, I have explained within my provisional decision why I'm satisfied this is not the case and my view on this hasn't changed.

I agree that the actions Pepper took to separate the fees and charges balance from the account balance – and to show it in a different way within the annual statements compared to the redemption statement – were confusing. But I remain satisfied that the total balance of the loan was not impacted by the way Pepper (and the predecessor lender from January 2020 onwards) decided to separate the charges balance when calculating the monthly payment. It isn't that Pepper added additional fees and charges, it's that it split the existing balance into two parts – the account balance and a charges balance.

This is supported by the account transaction history, showing the balance of the loan from inception to the point it was redeemed. Although it shows that a charges balance was repaid on redemption, it should be noted that the total balance of the loan has not increased by that amount at any point, other than when the charges were added at inception of the loan.

The balance of the loan reduced every month once a payment had been made, as would be expected. I'm satisfied the charges balance showing on the transaction history at redemption is solely due to the way in which Pepper separated that figure for its own accounting purposes. The total balance of the loan was not impacted by this. I will arrange for the Investigator to provide G with a copy of the transaction history for its records. Although

Pepper may be able to provide G with a more customer-friendly version for the period it would like to see.

I appreciate G disagrees that Pepper has calculated the monthly payment incorrectly. But I note that from January 2020 onwards the contractual monthly payment didn't include the amount which had been separated as the fees and charges balance. This was incorrect and not in line with the loan terms and conditions. And it meant G wasn't paying as much as it should have been each month. With that in mind, I remain satisfied that Pepper did not calculate the monthly payments correctly and that it should compensate G for this.

I am aware of the government guidance that was in place at the time of the covid pandemic regarding payment holidays, including that no charges should have been applied for taking one. My only reference to a payment holiday in my provisional decision was to explain why the contractual payments were not made during that period. I have seen no evidence to suggest that Pepper (or the predecessor lender) added any charges to the loan because of the covid payment holiday.

Ultimately, while I appreciate G may be disappointed, I see no reason to depart from the conclusions I reached in my provisional decision.

### **Putting things right**

To put things right, I require Pepper to take the following steps (if G accepts my final decision):

- Pepper should calculate what the end balance of the mortgage would have been had the monthly payments correctly included a payment towards the fees balance, from January 2020 to September 2023.
- Once it has done that it should refund the difference between what the end balance was and what it should have been to G, along with 8% annual simple interest\* from the date the mortgage was redeemed to the date of settlement. Pepper may deduct from this amount the £219.66 of interest it has previously refunded to G.
- Pay G £250 to recognise the inconvenience caused by this matter (minus the £150 already offered if it has already been paid to G).

\* If Pepper considers that it's required by HM Revenue & Customs (HMRC) to deduct tax from the interest refund, it should tell G how much it has taken off. It should also give G a tax deduction certificate if it asks for one, so it can reclaim the tax from HMRC if appropriate.

### **My final decision**

My final decision is that I uphold this complaint in part and require Pepper (UK) Limited to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask G to accept or reject my decision before 8 August 2025.

Keith Barnes  
**Ombudsman**