

The complaint

Mr and Mrs B complain that Paragon Bank Plc trading as Paragon Personal Finance irresponsibly lent them a second charge mortgage (secured loan).

What happened

Mr and Mrs B took out a secured loan in 2008. They borrowed just under £24,000 including fees over a term of 25 years.

In 2020, Mr and Mrs B complained to Paragon that the loan was mis-sold, because it wasn't made clear it was secured over their property, and it wasn't made clear how much interest would be charged or how expensive it would be. Paragon responded to that complaint in February 2020. Mr and Mrs B didn't refer the complaint to us until June 2021, when one of our investigators said that we couldn't consider it because it had been referred out of time.

In 2024, Mr and Mrs B made another complaint to Paragon. They complained that the loan had been irresponsibly lent because it was unaffordable for them and Paragon didn't carry out proper checks of their circumstances at the time. They also said it didn't explain how interest would be charged or how expensive the loan would be. And they said that, more recently, Paragon has threatened them with repossession, said it would default the loan, demanded unaffordable payments and tried to evict them from their home – even though they are vulnerable. Mr and Mrs B say they've already paid £20,000 – the amount they borrowed, less fees – and Paragon should accept that in settlement of the debt.

Paragon said that it had not lent irresponsibly. It obtained information about Mr and Mrs B's finances at the time, including payslips, which showed the loan was affordable. It said that Mr and Mrs B used the lending to consolidate several other debts, which improved their overall financial position. It said the loan was sold by a broker, who would have been responsible for explaining it to them and making sure they understood how the loan worked.

Paragon said that it had taken account of Mr and Mrs B's vulnerability and tried to work with them for several years. It said it had agreed payment arrangements and frozen interest. But no payment had been made for several years. It said it had no option but to apply for a possession order. But it said it was doing so to try and come to an agreement to repay, not simply to evict Mr and Mrs B.

Our investigator didn't think the loan had been lent irresponsibly, or that the lending had created an unfair relationship between Paragon and Mr and Mrs B. He said that Paragon was entitled to expect the loan to be repaid in accordance with the agreement – which included interest as well as the amount borrowed. He said that Mr and Mrs B hadn't made any payments since 2019, and Paragon had not charged interest since 2020. But it wasn't unreasonable that Paragon still wanted the remaining balance to be paid, and that it told Mr and Mrs B of the potential consequences if that didn't happen. He said it wasn't unreasonable for Paragon to have concluded that all options short of legal action had been exhausted. He didn't think the complaint should be upheld.

Mr and Mrs B didn't agree and asked for the complaint to be reviewed by an ombudsman. They said Paragon hadn't properly considered their income or expenditure at the time of the lending decision. They said their relationship with Paragon was unfair. It hadn't considered their vulnerabilities or shown appropriate forbearance. They said it should stop enforcement, write off the remaining balance and remove the charge from their property.

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'm sorry to hear of Mr and Mrs B's difficult circumstances, which I've taken into account in full. But I'm afraid that I can't fairly uphold their complaint.

I've reviewed the lending decision, and I'm not persuaded that the loan was irresponsibly lent. Mr and Mrs B have referred to the regulator's CONC rules, but they're not applicable to this complaint. At the time of the lending, the relevant rules were to be found in the Office of Fair Trading's (OFT's) guidance. The formal guidance document later issued wasn't in force at the time of this loan, but the OFT had issued some guidance to lenders – it said that proper and appropriate checks of creditworthiness and ability to repay were required, and that checks should be proportionate to the agreement and risks involved. There should be a proper assessment of ability to repay taking full account of all relevant circumstances, taking all reasonable steps to verify information provided.

In this case, Mr and Mrs B applied to Paragon on a self-certified basis. However, Paragon did check their income by requesting payslips and other financial documentation. Based on those checks, it made its lending decision using figures lower than those declared by Mr and Mrs B – based on Mrs B's year end payslip showing income for the year just before the application, and on Mr B's P60 showing the same information. Based on that information, the loan was clearly affordable even taking into account their main mortgage, and left substantial funds each month to cover other expenditure. I'm satisfied that Paragon carried out proper affordability checks to ensure it lent responsibly.

The account history shows that Mr and Mrs B were in fact able to afford the loan repayments for almost ten years after it was taken out – only falling into arrears from 2017, and even then only briefly – payments weren't missed in any significant way until late 2019, when Mrs B told Paragon she was no longer working. It seems it was this change of circumstances, rather than the original lending decision ten years earlier, that caused Mr and Mrs B's financial difficulties.

I've also looked at the loan agreement, which makes clear that it was secured over their property and explained the interest rate applicable to the loan. If Mr and Mrs B didn't understand that, that's a matter to take up with the broker that sold them the loan – it's not something Paragon is responsible for.

Taking all that into account, I'm not persuaded that the relationship between Paragon and Mr and Mrs B was or is unfair because of anything arising from the circumstances in which the loan was taken out.

In November 2019 Mrs B contacted Paragon to explain she was no longer working. This is when payments to the loan stopped, and no payments have been made since. Paragon agreed an arrangement with no payments required until April 2020 having looked into Mr and Mrs B's circumstances. It also froze interest for the duration of the arrangement. I think that was a fair way to support them at the time.

Mr and Mrs B then made the complaint I've referred to above, in February 2020. Paragon responded to that complaint, and Mr and Mrs B didn't refer it to us. Following the complaint there was no further contact with Mr and Mrs B. The payment arrangement ended in April 2020 and Paragon resumed charging interest from July.

In September 2020, Mr and Mrs B told Paragon they were escalating their complaint to us (though they didn't do so until June 2021). Paragon agreed to hold further activity on the account pending the complaint, and in October it stopped charging interest again.

During 2021 there were further conversations with Mr and Mrs B in which they reiterated their complaint. After we said the complaint was out of time, there was no further contact from Mr and Mrs B until May 2022, when Mrs B said that she was unwell and waiting for an operation. She said she was going to speak to Citizens Advice and then get back in touch with more information. In August 2022 Mrs B emailed Paragon to say she couldn't afford to make any payments and asked it to write off the remaining balance – Paragon said it couldn't do that.

In October 2022 Paragon said it was three years since the last payment, it would likely need to take legal action, and that Mr and Mrs B should seek legal or financial advice.

In March 2023, after no further contact, Paragon said it would instruct a field agent to visit the property. Mrs B got in touch and said their circumstances hadn't changed and they were unable to make any payments.

In August 2023, Mrs B said she would try and get assistance from family to help make some payments. Paragon said it would have to take legal action if things weren't brought back on track.

In October 2023, Mrs B offered to pay £60 per month. Paragon said it would still need to consider taking action given the level of arrears. In fact, no payments were made.

In June 2024, Mrs B again offered to pay £60 per month, saying she would be able to pay more when she started a new job in October. Paragon said that given the time that had passed and the level of arrears it couldn't agree any further reduced payment arrangement. It said it would begin taking recovery action – but Mr and Mrs B should pay what they could in the meantime.

In November 2024, Mr and Mrs B made this complaint.

I'm satisfied that Paragon has shown reasonable forbearance. No payments have been made to the account since November 2019, and Paragon has not charged any interest since September 2020. The purpose of forbearance is to allow borrowers time to get things back on track and start repaying the mortgage – with a view to repaying it by the end of the term if possible. But Mr and Mrs B haven't been able to make any payments for six years, and there's no indication when they will be able to make payments again – or be able to clear the loan balance over the remaining term or within a reasonable time thereafter.

Paragon has discussed the situation with them several times over the years. It's agreed payment arrangements and frozen interest. It wouldn't be reasonable to expect it to simply write off the remaining loan balance – which Mr and Mrs B did borrow and agree to repay, including the interest.

I don't think it's unreasonable that Paragon now plans to take legal action. It's said that even then it doesn't intend to take possession of the property immediately – rather, it wants to use the legal process to try and agree a firmer arrangement with Mr and Mrs B for them to

resume payments and try and get things back on track. Repossession should be a last resort. But I agree that Paragon has tried other options and given Mr and Mrs B substantial time to find alternative solutions. I don't agree that Paragon has acted in breach of the pre-action protocol – things haven't yet reached that stage. But I don't think it's unfair that it's now decided that legal action is the only option left to try and move things forward.

I say that even taking into account Mr and Mrs B's vulnerabilities. That's something Paragon should consider. But it doesn't mean that the loan should be written off, or that Paragon isn't entitled to be repaid. It should take account of their vulnerabilities and give them space to try and resolve things. In not taking action, and not charging interest for six years, I'm satisfied it's done that.

Finally, Mr and Mrs B say that Paragon has sent them default letters but not recorded a default on their credit files. An unsecured loan is defaulted – with the default being reported – when a lender issues a default notice following missed payments. But a mortgage is only defaulted, and recorded as such, when the loan is brought to an end through repossession of the property.

As I say, I'm sorry to hear of all Mr and Mrs B's difficulties. I know this will be disappointing to them. But I do think Paragon has shown considerable forbearance and treated them fairly. If Mr and Mrs B have new proposals for repaying the debt, they'll need to contact Paragon and discuss that. If not, it's likely Paragon will now begin to take recovery action. I hope that won't be necessary.

My final decision

My final decision is that I don't uphold this complaint.

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

Simon Pugh
Ombudsman