

The complaint

This complaint is about a buy-to-let mortgage Mr R holds with Paragon Bank Plc. In essence, there are five broad strands to the complaint. These are:

- Paragon didn't provide a signed copy of the original mortgage agreement.
- The interest rate is higher since the mortgage transitioned from Sterling Overnight Reference Interest Rate (SONIA) to a variable rate.
- Paragon is accusing Mr R of breaching the terms and conditions of the mortgage by using the mortgaged property as a holiday let.
- Mr R wants Paragon to stop enforcement action.
- Mr R wants Paragon to clarify the early repayment charges it levies, and how an offer of repayment he has made will be applied.

What happened

The above summary is in my own words. The basic background to this complaint is well known to both parties so I won't repeat the details here. Our decisions are published, and it's important that I don't include any information that might result in Mr R being identified.

Instead I'll focus on my decision and the reasons for it. No courtesy's intended by that. It's a reflection of the informal service we provide, and if I don't mention something, it won't be because I've ignored it. It'll be because I didn't think it was material to the outcome of the complaint. This approach is consistent with what our enabling legislation requires of me.

What I've decided – and why

I'll start with some general observations. We're not the regulator of financial businesses, and we don't "police" their internal processes or how they operate generally. That's the job of the Financial Conduct Authority (FCA). We deal with individual disputes between businesses and their customers.

In doing that, we don't replicate the work of the courts. Whilst statutory, our scheme is intended to provide swift outcomes to disputes between business and the customers, with a minimum of formality. We're impartial, and we don't take either side's instructions on how we investigate a complaint. We conduct our investigations and reach our conclusions without interference from anyone else. But in doing so, we have to work within the rules of the ombudsman service.

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

It's for us, rather than the parties to the dispute, to decide what evidence we need to reach a fair outcome. It's also for us to assess the reliability of evidence, from both sides, and decide how much weight should be attached to it. When doing that, we consider everything together to form a broader opinion on the whole picture. We don't just consider individual

pieces of evidence in isolation, but we may attach greater weight to, and place greater reliance on, some pieces than we do to others.

Before I get to the specific heads of complaint, I've noted that Mr R has accused Paragon of multiple breaches of regulation in its operation of the mortgage and its handling of the complaints he's made. Paragon itself is a regulated lender, but the mortgage Mr R holds with it is unregulated. That doesn't mean Paragon doesn't still have to treat Mr R fairly; but the threshold for what is deemed fair treatment is not as high as it would be if the mortgage were regulated. Treating someone unfairly does not simply mean not doing what the individual wants or expects. Lastly, how complaints are handled isn't a regulated activity in its own right, and generally speaking doesn't fall within our remit.

Paragon didn't provide a signed copy of the original mortgage agreement

The impression I get here is that Mr R is concerned about the enforceability of the mortgage contract. That's not a matter for me; only a court can decide if a contract is enforceable or not. My remit is to decide if Paragon has handled Mr R's request for historic information fairly.

Paragon has provided, on several occasion, copies of the mortgage offer and the mortgage deed (also known as a legal charge) from January 2007. The mortgage offer is not signed, and I would not expect it to be. It has not been standard industry practice for mortgage offers to be signed for many years. The mortgage deed *is* signed; and the signature is witnessed by a solicitor. So, I'm satisfied Paragon has provided Mr R with everything I'd expect it to provide and therefore has treated him fairly.

The interest rate is higher since the mortgage transitioned from Sterling Overnight Reference Interest Rate (SONIA) to a variable rate

The mortgage offer from 2007 shows that the mortgage is interest-only, was initially for a ten-year term, on a fixed interest rate of 4.84% until 31 March 2009. Thereafter, the interest rate charged would be the London Inter Bank Offered Rate (LIBOR) plus a fixed margin of 1.95%.

In 2017, with the mortgage end approaching, the mortgage term was extended for a fresh five years, again on a LIBOR-linked interest rate. Then, in 2021, LIBOR was replaced by SONIA, and Paragon wrote a succession of letters to Mr R explaining the transition to SONIA. With the mortgage term again due to expire in early 2022, Mr R requested another term extension. Paragon agreed an extension, on a fixed rate of 2.95% until the end of February 2024, after which the rate reverted to Paragon's standard variable rate (SVR), less a discount of 0.75%.

In June 2024, Paragon issued an illustration for another term extension; the new term would be 21 months, and the interest rate was again SVR-based, discounted by 1.00% for the first year. The illustration documented that no early repayment charge would apply if the mortgage debt was repaid.

Putting all of this together, I don't find that Paragon has treated Mr R unfairly over the interest rate it has charged from time to time. All of the rate products that have applied have been documented and explained to Mr R in the manner I'd expect to see in a commercial transaction.

Paragon is accusing Mr R of breaching the terms and conditions of the mortgage by using the mortgaged property as a holiday let

This element of the complaint is more straightforward than it has been made to look. The original mortgage contract includes a clause specifying that the mortgaged property may only be let by way of an assured shorthold tenancy (or short-assured tenancy in Scotland). The clause goes on to say that such a tenancy must either be on an indefinite rolling monthly basis, or a fixed term of at least six months but not more than twelve months.

That does not allow Mr R to use the mortgage property for short-term holiday lets. By doing so, he is in breach of his mortgage conditions. Whether or not Paragon has since offered BTL mortgages that allow short-term holiday lets is neither here nor there, and has no bearing on this dispute. Mr R's contract with Paragon doesn't allow him to use the mortgaged property for short-term holiday lets, and Paragon is not obliged to vary the contract, or disregard the restriction in the contract, to allow him to do so.

Mr R wants Paragon to stop enforcement action

Mr R has been underpaying the monthly interest for some time. It seems that when his fixed rate ended in early 2024, he continued to pay the same amount each month he'd been paying whilst the fixed rate was in effect. As the SVR he's been on since then is higher (and I've already found that this was not unfair) the amount he's been paying isn't enough, and arrears have accrued. Again, all of this has been documented in a manner I'd expect to see when a borrower isn't fulfilling their contractual obligation to make their monthly payments in full and on time.

Paragon can fairly seek to recover the money it's owed by enforcing its security over the mortgaged property. It can also fairly report the arrears to credit reference agencies. It has chosen to pause recovery action whilst this complaint has been with us for consideration, but it wasn't *obliged* to do that.

It's important to explain here that lenders will generally agree not to pursue recovery action whilst we look at a complaint, but they don't have to and we can't force them to. If the Financial Ombudsman Service had that power it would undermine our impartiality between the parties to a complaint. It would also create the potential for consumers to use our service to bring complaints with the intention of having any legal action put on hold, thereby obstructing businesses that were trying to take action through the courts to recover money legitimately owed by the borrowers.

I do not wish to alarm Mr R but I would not want him to be under any misunderstanding that we would tell Paragon that it must delay recovery action indefinitely if Mr R remains in arrears. Nor must it do so in the event of any new complaint being raised about the mortgage. It is a matter for a court to decide whether it is appropriate to adjourn or suspend any legal action, not this Service.

Mr R wants Paragon to clarify the early repayment charges it levies, and how an offer of repayment he has made will be applied

Earlier this year, Mr R proposed to make a partial reduction the mortgage balance with a lump-sum payment of £800,000. But he said he'd only do so if Paragon first clarified questions he had about early repayment charges and how the money would be applied to the account. Paragon confirmed there'd be no early repayment charge, which was consistent with the illustration for the term extension from June 2024. It provided this confirmation before the date Mr R had said the money would be available.

How the money would be applied continued to be the subject of debate, but by 21 March 2025, Paragon had clarified that any lump-sum payment received would be

applied in reduction of the capital balance on a same-day basis. It had also told Mr R that it wasn't obliged to accept funds subject to conditions he sought to impose.

Overall, I don't see anything amiss in how Paragon dealt with the matter. It may not have told Mr R what he wanted to hear, but it told him everything he needed to know. Mr R says he's lost out for many months by having the £800,000 on deposit, foregoing credit interest whilst still incurring debit interest on the mortgage. But it was his choice to do that. Even though he was clearly dissatisfied with Paragon's response, there was nothing to stop Mr R from making the lump-sum payment, if only to mitigate the debit interest, whilst continuing to pursue his questions about how it would be applied.

I said at the outset that I wouldn't be commenting on every single point, and I haven't. I have, as I said I would, confined myself to those matters that I consider have a material effect on the outcome. I can see how strongly Mr R feels. That's a natural, subjective reaction, and entirely understandable in the circumstances. Be that as it may, I have to take a different approach. I'm impartial and I have to look at things objectively.

That's what I've done and my conclusions is that Paragon has not treated Mr R unfairly.

Mr R doesn't have to accept my final decision, and if he does not, then neither he nor Paragon will be bound by it. Subject to any time limits or other restrictions a court might impose, our consideration of Mr R's complaint won't have prejudiced his right to take legal action over the subject matter. But he might wish to take advice before going down that route.

My final decision

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

My final decision concludes this service's consideration of this complaint, which means I'll not be engaging in any further discussion of the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 16 December 2025.

Jeff Parrington
Ombudsman