

The complaint

Mrs L's complaint is about a second charge mortgage she and the late Mr L had with UK Mortgage Lending Ltd trading as Pepper Money. She thinks:

- the decision to lend to them was irresponsible as she doesn't think proportionate checks were done, the mortgage was unaffordable and her and her late husband's personal circumstances were not considered.
- the interest rate was very high and resulted in her having to use money from her pension to repay the mortgage, rather than use that money for her retirement.

What happened

In 2019 Mr and Mrs L approached an independent mortgage broker for assistance in arranging borrowing. They had an existing interest-only mortgage of approximately £57,000, and they were recommended to take a second charge mortgage with Pepper Money. The purpose of the borrowing was to consolidate some existing debts. They applied for a loan of £32,500 plus fees over a term of 14 years on a repayment basis.

Pepper Money completed an assessment of Mr and Mrs L's finances to establish if they could afford the mortgage they had applied for. It asked them to provide recent payslips to establish their net incomes.

Mr and Mrs L provided details of their existing debts, which totalled just under £43,000 on credit cards, loans and hire purchase arrangements. Most of the arrangements had been taken out in 2017 and 2018, but the most recent had been arranged only five months before the Pepper Money application was made. In addition, Mrs L had five defaulted credit card and utility accounts, of which three still had outstanding balances totalling just over £5,000. Mrs L also had a CCJ from 2015 with just under £800 outstanding.

Mrs L explained that these debts had been run up when she'd had a change in her employment and had to take a job with a much lower salary. She told Pepper Money she'd got a new job and a promotion which had returned her income to previous levels. So she and Mr L wanted to get their financial situation back on track.

In relation to outgoings, Mr and Mrs L's broker provided details of how much they spent on essential outgoings and recreational activities. Pepper Money then compared these figures with Office of National Statistics (ONS) average figures for a household of the nature of theirs. Pepper Money has confirmed that it would be normal for the higher of those two figures to be used in any affordability assessment, but in this case the figure for outgoings it has provided as being used in the affordability assessment is based only on Mr and Mrs L's information. This meant that Pepper Money used a figure of £1,586 rather than £1,669.16 in the affordability assessment. When the cost of the new mortgage and the debts that Mr and Mrs L were not consolidating were factored in, Pepper Money established that they had just over £1,100 disposable income each month. Had the additional costs by using the ONS figures been included, this would only have reduced the disposable income to around £1,000.

Pepper Money also factored in an increase for potential increases in the cost of the two mortgages over the following years – a stress test. This was calculated by adding 2% to the interest rate on both mortgages. This added approximately £140 to the costs and reduced the disposable income slightly, but it would still be around £1,000 each month based on Pepper Money’s calculation and around £900 using the slightly higher outgoing costs. Even had the most rigorous stress test from the time been used, the disposable income would still have been in the region of £700 per month using the correct outgoings figure.

Pepper asked questions about the situation, given that Mr and Mrs L had taken out a new loan a few months earlier and seven months earlier had missed a mortgage payment.

Mrs L also provided an explanation about their plans to repay the interest-only mortgage - to consolidate debts, which had been run up during a period when her salary was materially lower, increase the monthly payment to the main mortgage at an affordable level, improve their credit rating and when possible, re-mortgage. In relation to the missed mortgage payment, Mrs L explained that this had been an error by the mortgage lender – it had not collected the monthly payment and had not told them. When they had become aware, they made up the payment.

Pepper also asked Mr and Mrs L for bank statements. Statements for June to August 2019 for a bank account were provided. These evidenced payments relating to:

- Mrs L’s salary
- The existing mortgage – which were around £40 more than the contractual payment.
- Council tax
- Telecommunications.
- One utility company.
- Car loan payments.

Mr L’s income and other standard expenses, such as other utilities, and payments to various creditors were not included in these bank statements. There were also numerous transfers of funds to other bank accounts.

Pepper Money decided to accept Mr and Mrs L’s application and the mortgage was advanced in September 2019.

In October 2024 Mrs L raised her complaint with Pepper Money. The mortgage was repaid in December 2024.

Pepper Money responded to the complaint in a letter of 8 January 2025. It said that it had considered the affordability of the mortgage for them based on the income (from their paid employment) and expenditure information they had provided via their broker. It was satisfied that the mortgage was affordable and that it was not irresponsibly lent.

Mrs L was not satisfied with Pepper Money’s response and referred the complaint to this Service. Pepper Money provided a file of papers, which did not include bank statements. So as part of the investigation, the Investigator asked Mrs L to provide bank statements. She provided statements for her own bank account, which were the same as those that had been provided to Pepper Money in 2019. Subsequently, Mrs L also provided statements for Mr L’s bank account. She told us that he had a gambling problem – there were gambling transactions on the account and Mrs L said that the cash withdrawals Mr L had made were also used for gambling.

Mr L's bank account statements for May, June and July 2019 showed that he, on average, made around £400 per month in cash withdrawals. The gambling transactions on the account were:

May £165, including £70 that had been won.
June £10
July £180 including £40 that had been won.

The Investigator considered all of the information available and recommended the complaint be upheld. She was not persuaded that Pepper should have accepted Mr and Mrs L's application.

Pepper Money didn't accept the Investigator's conclusions and asked that the complaint be referred to an Ombudsman. It said that it considered that some of the key aspects of the lending process had been interpreted with the benefit of hindsight. It also said that it had received bank statements as part of Mr and Mrs L's application, and it had found nothing that concerned it in them – there had been no betting, overdraft usage and the account maintained a running balance. Pepper Money went on to question the reliance on Mrs L's retrospective explanation about what the cash withdrawals by Mr L had been used for and highlighted that this could not be verified. In addition, Pepper Money remained satisfied about the explanation for the defaults and adverse credit that had been provided. In relation to the explanation it had received about the missed mortgage payment, Pepper Money said that while it agreed to a point that a lender would not have recorded a missed payment in the circumstances put forward, but it said that it was plausible that a correction had been underway.

I issued a provisional decision on 26 November 2025, in which I set out my conclusions and reasons for reaching them. Below is an excerpt.

'In 2019, when the mortgage was taken out, it was covered by the rules of mortgage regulation, which can be found in the MCOB section of the Financial Conduct Authority's Handbook.

The rules require a lender to assess affordability and not lend unless a loan is affordable. In making the assessment a lender must obtain evidence of income, and information about expenditure. It can assess expenditure based either on a borrower's actual declared outgoings, or it can use modelled expenditure information - such as typical expenditure figures for a household of the consumer's type – for living expenses. However, it must always use actual figures for committed expenditure, such as other credit agreements. The rules also say that a lender is entitled to rely on what it's told about expenditure, unless, taking a common-sense view, it has reason to doubt it.

I have looked carefully at the assessment Pepper Money carried out before it accepted Mr and Mrs L's application. It took account of their verified income and their actual expenditure. However, in the calculation it has provided to us, it does not appear that it followed its standard approach to use the higher of the declared figures for outgoings and the ONS figure. This would have meant that the affordability assessment should have used a figure that was just under £85 per month higher than it did. However, given the level of the disposable income that Mr and Mrs L had, I don't consider that the error had any material effect on the affordability of the mortgage.

Pepper Money obtained a credit report for Mr and Mrs L. This showed a heavy reliance on debt in the relatively recent past, a loan being taken out very recently, and a missed mortgage payment. Pepper Money then rightly asked questions about the situation. Mrs L's explanation regarding the missed mortgage payment should have raised concerns. If the

error that caused the missed payment was on the part of the lender, and it didn't inform them of the missed payment, it would not be expected for a missed payment to have been reported to credit reference agencies. I think that this situation was such that it should have triggered Pepper Money to ask for bank statements, which it did. However, having looked at the statements that Pepper Money had on its file, they clearly only included Mrs L's income and only a few of the payments for utilities and debts that were being made monthly. So it would have been clear at the time that Mr and Mrs L had at least one more bank account, which reasonably Pepper Money should have asked for statements for.

The Investigator did so, and Mrs L provided them. I have reviewed the statements, and they do include some gambling transactions. Gambling is a leisure activity and is not always an indication that there is a problem – it is only when it is uncontrolled, and the individual is spending money that they can't afford to at the detriment of their general financial situation that it would indicate that further lending should not be given. Having considered the transactions on Mr L's account, it does not obviously indicate there was a problem with his gambling – the amounts were relatively small and, based on the disposable income he and Mrs L had, did not make a significant impact on their financial situation.

While Mrs L has said the cash withdrawals Mr L made from the account were also used for gambling transactions, there is no evidence of this. The amounts do not appear excessive for normal spending on things other than gambling. I can't see anything that, had Pepper Money had these statements, should have triggered it to have asked further questions in this regard. I also note that Mr L went into his agreed overdraft by around £150 the week before he was paid each month. The amount didn't escalate and so again, I don't consider it indicates Mr L was spending more than was affordable.

I have also considered Mrs L's bank statements, and I am not persuaded that there is anything contained in them that should have raised concerns. The account ran in good order and there were no transactions that would flag there were spending problems or use of overdraft facilities. So, overall, I am not persuaded that had Pepper Money obtained all the statements for Mr and Mrs L's bank accounts that it should have, it should have had concerns about agreeing to the borrowing they had applied for.

I am not persuaded that the evidence in this case indicates that Pepper Money's decision to lend was inappropriate or irresponsible.'

Pepper Money confirmed that accepted my provisional decision.

Mrs L said that she did not agree with the outcome, but she didn't explain why or provide any additional evidence she wanted considered.

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 have reviewed the file again in its entirety and I have revisited my provisional decision. Having done so, and in the absence of any further comment or evidence from the parties, my conclusions have not changed.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mrs L to accept

or reject my decision before 8 January 2026.

Derry Baxter
Ombudsman