

The complaint

Mr and Mrs B have complained about an interest only mortgage they hold with Preferred Mortgages Limited. They've said the mortgage was mis-sold to them, and they've asked to move to repayment over the years but Preferred hasn't let them.

What happened

Mr and Mrs B took the mortgage out in 2007 through an independent mortgage broker. The mortgage offer which was issued on 30 April 2007 shows Mr and Mrs B were borrowing £142,680 (plus fees) on an interest only basis over a 22-year term. The interest rate was fixed at 5.64% until 1 January 2009, after which it moved to a reversionary rate which was a variable rate charged at 1.95% above LIBOR. Mr and Mrs B signed to accept that offer on 2 May 2007.

The mortgage went into arrears in 2009 and remained so until 2016. In April, May and June 2020 Mr and Mrs B took a Covid-19 payment deferral. And then the account went back into arrears in June 2022, with payments missed in June and December 2022.

Mr and Mrs B made their last regular payment to the mortgage in March 2023, and then from August 2023 payments were received from the Department of Work and Pensions under the Support for Mortgage Interest (SMI) scheme. That started with a lump sum payment in August 2023, to backdate the claim, with that lump sum taking the mortgage back out of arrears and leaving the account in credit.

Unfortunately, the SMI payments weren't enough to cover the monthly interest due on the account, being less than half the amount due, so the account went back into arrears in March 2024 once all the backdated claim credit was used up. Mr and Mrs B made ad-hoc payments in February, March, April, July and August 2025 to top up the SMI payment. The last update we have on file show that at the end of September 2025 the account was just over £7,000 in arrears, with the interest only contractual monthly payment due being around £750 a month.

In January 2025 Mr and Mrs B raised a complaint. They said they'd been taken advantage of when they remortgaged as they were meant to be on interest only for three years and then move to repayment, but when they asked about it they were told they couldn't change. They said their mortgage term was coming to an end and they have no way to clear the loan.

Preferred responded to the complaint. It said it had stopped being an active lender in 2008 and so it was unable to make any changes to the original repayment method. It said that Mr and Mrs B had applied for the mortgage through a broker, but the broker was no longer trading so Mr and Mrs B could try contacting the Financial Services Compensation Scheme. It said the application was made for an interest only mortgage over a 22-year term, and it had been unable to locate an agreement that the mortgage would be switched to repayment. It asked Mr and Mrs B to get in touch to discuss their current circumstances to see how Preferred can support them.

Our Investigator didn't uphold the complaint. She said the mortgage offer set out it was an interest only mortgage, and that Preferred didn't give any advice to Mr and Mrs B as to whether it was suitable for them or not. She said that Preferred wasn't able to switch the mortgage to being repayment, and as it isn't an active lender it didn't offer any new products. However she said she expected Preferred to continue engaging with Mr and Mrs B to assist them with options.

Mr and Mrs B didn't agree and so the case was passed to me to decide.

What I've decided – and why

I issued a provisional decision in December 2025, the findings of which said:

'Although I've read and considered the whole file I'll keep my comments to what I believe is relevant. If I don't comment on any specific issue it's not because I've not considered it but because I've decided that I don't need to comment on it to provide the right outcome on this complaint.

In their response to the Investigator Mr and Mrs B said some insurance brokers had looked at the paperwork and said it isn't right, and that they would send it to us so we could find the discrepancies. But we've not received that from Mr and Mrs B, nor have they told us what they think is wrong / what the discrepancies are (as we already hold the paperwork with that being sent to us by Preferred). As that hasn't been provided by Mr and Mrs B I've had to review the case based on what we have on file.

This mortgage was introduced by an independent mortgage broker, so it wasn't Preferred's responsibility to advise Mr and Mrs B about the nature of the mortgage repayment method they'd applied for and ensure it was suitable for their needs. The application form was filled in and submitted to Preferred by Mr and Mrs B's broker and Preferred then set up the mortgage as requested.

The mortgage broker wasn't appointed by - or acting on behalf of - Preferred. The mortgage broker was appointed by - and acting on behalf of - Mr and Mrs B. There was no regulatory requirement for Preferred to replicate the role of the mortgage broker. So, the fact it didn't check they understood this was a permanently interest only mortgage (rather than it switching to repayment at some future point), isn't something I can blame it for as it simply wasn't Preferred's responsibility to do so.

It may be that was something Mr and Mrs B discussed with their broker, but the application that was made to Preferred was for an interest-only mortgage that would remain so for the full mortgage term.

The application form submitted by Mr and Mrs B's broker said 'yes' in answer to a statement 'If the mortgage is to be repaid on an interest only basis I confirm that I have discussed repayments methods with the applicant(s) and that arrangements have been or will be made to repay the capital', with 'I' meaning the broker acting on Mr and Mrs B's behalf.

The mortgage offer explained the contract Mr and Mrs B were entering into and that explained that Mr and Mrs B would owe the full amount still at the end of the term as they would be paying just the interest each month for the 22 years. It said:

'The payments on this mortgage only cover interest and not the capital borrowed. The repayment vehicle you are using to repay the capital borrowed is unknown to Preferred Mortgages Limited. We remind you of the importance of making suitable arrangements to

repay the capital at the end of the mortgage term. You should make regular checks on the performance of any investments used for this purpose, to see whether they are likely to yield sufficient funds to repay the capital owing at the end of the term.'

Having considered everything very carefully I'm satisfied Preferred did nothing wrong when the mortgage was set up as it put in place the interest only mortgage Mr and Mrs B applied for, and there's nothing to indicate it was aware Mr and Mrs B thought it would switch to repayment after three years so it couldn't correct their misunderstanding of how the mortgage worked.

Mr and Mrs B said they've tried to move to repayment for years but haven't been allowed to do so as Preferred isn't a mortgage lender.

Preferred stopped actively lending in 2008. This means that it no longer lends money or borrows money in order to provide preferential interest rate products. It was a commercial decision on the part of Preferred to close its book of lending and it is not something the Financial Ombudsman Service would, or could, interfere with. The business that administers the mortgage on behalf of Preferred is part of a banking group but Preferred is not part of that group. As such, that banking group cannot change the terms and conditions associated with the mortgage, provide new interest rate products to Preferred customers or provide for a switch of mortgage to an active lender within its group.

I accept Preferred is a closed book lender and doesn't take on new borrowers. But it has an obligation to treat its existing customers fairly. That includes assisting existing borrowers, where necessary, to ensure interest only mortgages can be repaid where possible. Preferred is right that it doesn't have to agree to make changes to existing mortgages. But it does need to treat its existing customers fairly. In this case, as interest only borrowers, it ought to have considered how it could ensure the mortgage was on track to be repaid and helped Mr and Mrs B understand how they could do that.

That doesn't necessarily have to be through formal conversion to repayment terms. For example, it could have discussed their situation with them and reminded them of the facility in their mortgage to make overpayments. It could have calculated how much Mr and Mrs B would need to overpay each month to clear their balance by the end of the term and told them that.

Mr and Mrs B told our Investigator that they'd discussed overpayments with the business several years ago, but they were unable to make those payments as they were told they had to be in increments of £5,000 or more which they couldn't afford.

I've reviewed the contact notes and those show that an independent financial adviser – who was acting for Mr and Mrs B - contacted Preferred in August 2011. It seems Preferred gave all the details about the mortgage to that adviser, including that this was a permanent interest only mortgage and that changes couldn't be made to the repayment type, interest rate product or mortgage term. The financial adviser was also told that Mr and Mrs B could make overpayments to the mortgage with the minimum amount accepted for that being three times the contractual monthly payment, which was around £370 at that time. About ten days later there was a further conversation between Mr and Mrs B's adviser and Preferred at which time they were instead told the minimum amount for overpayments was £2,000.

So it seems Mr and Mrs B have been aware since August 2011 that this was a permanent interest only mortgage that couldn't be changed to repayment, but they could make overpayments.

The original mortgage offer sets out what happens with overpayments, with that saying:

‘We will accept one off overpayments to your mortgage account at any time during the term of the mortgage subject to the minimum amount of £2,000. The early repayment charge in Section 10 will apply to the amount you repay early. On receipt of an overpayment, if you give us your written consent we will recalculate the amount that you owe and the interest you pay with effect from the day we receive the cleared payment. You will be notified of the revised repayments accordingly. Any overpayment made below the minimum amount will show as a credit on your mortgage.’

As this is the contract Mr and Mrs B entered into, Preferred can’t now say the minimum amount it will accept for it to be an overpayment is £5,000 (or any other amount that is higher than £2,000). It can accept an amount less than £2,000 and treat it as an overpayment, as that would be in Mr and Mrs B’s favour, but it can’t now introduce less favourable terms than that which are set out in the mortgage contract.

I also think that term could be much clearer. The focus of it is that any overpayment must be for £2,000 or more, with just a short sentence at the end that an overpayment below that amount can be made but it will be treated differently. The term doesn’t explain what difference that makes to the account if it “will show as a credit on your mortgage”. My understanding is that any overpayment of £2,000 or more could trigger a recalculation of the contractual monthly payment if the consumer requested that. Whereas a payment of less than £2,000 will still come off the mortgage balance, meaning less interest is charged going forward, but can’t be used to request the contractual monthly payment be reduced.

Having considered everything very carefully I think Preferred could have been clearer about how any overpayments of less than £2,000 would be treated, and it should have actively discussed with Mr and Mrs B the option to overpay – and how much those overpayments would need to be each month – to support them with their aim to repay the mortgage by the end of the term.

However, I don’t think this complaint turns on that. That’s because the mortgage was in arrears for much of the mortgage term, except for a period between 2016 and 2022 and then from August 2023 until March 2024. As Mr and Mrs B were unable to sustainably meet the interest only payments for some of the term and then not clear down the arrears any quicker than they did, it seems unlikely they would have been in a position to make overpayments to the level that would be needed to repay this mortgage in full within the mortgage term. For example, if this had been set up as a repayment mortgage from the start then the contractual monthly payment would have been around £275 a month higher than it was. For every year the mortgage remained on interest only that extra amount would increase as it was one less year available to repay the balance over, so if the mortgage had been switched to repayment (or Mr and Mrs B started making overpayments) after three years (and the interest rate remained the same) then Mr and Mrs B would have had to pay around £350 more every month. Having considered everything I’m satisfied that simply wouldn’t have been sustainable for Mr and Mrs B.

In any event, Mr and Mrs B were aware they had an interest only mortgage and needed to make overpayments to repay it, so even if they weren’t in a position to overpay at least £2,000 (or £5,000) at a time, they could have put what they could afford aside each month themselves to then pay that to the mortgage account as a lump sum each time the sum they had saved up reached £2,000 (or £5,000), or they could have discussed with Preferred what would happen if they overpaid less than that each month.

Mr and Mrs B have also said they tried to remortgage elsewhere but weren’t able to do so and then they fell ill so it is no longer an option.

I have considerable sympathy with the situation Mr and Mrs B find themselves in. The lending environment when they took their mortgage out was very different, as was their circumstances.

There's nothing in Mr and Mrs B's mortgage agreement that would prevent them remortgaging elsewhere – they're no longer liable for an early repayment charge, for example, so long as they give 30 days' notice. But the reason they can't do that is because of external changes in their circumstances – changes which aren't part of their mortgage contract, aren't within Preferred's control, and couldn't have been foreseen by any party when they took the mortgage out.

Preferred isn't treating Mr and Mrs B any differently from how it treats its other customers, and isn't, itself, standing in the way of Mr and Mrs B moving their mortgage elsewhere. Taking the facts of this case into account, and considering the law, rules and my findings about what has happened, I can't fairly uphold this complaint.

I understand the most recent income and expenditure information that Mr and Mrs B provided showed there was no affordability for the mortgage payment at all (with them being in deficit each month before any mortgage payment is considered) and that there was little prospect of that changing significantly. In addition the mortgage term is due to end in 2029 and I understand Mr and Mrs B have no way of repaying the outstanding balance.

As I've said, Preferred is a 'closed book' lender so it doesn't offer new interest rate products to either existing customers or new customers – and there's nothing in the rules of mortgage regulation requiring it to do so. Lenders are entitled to decide for themselves whether to offer new interest rate products. We can't compel a lender to offer new interest rates and all we'd expect a lender to do in these circumstances is direct its customers to seek independent mortgage advice so they can explore whether it's possible to switch their mortgage to a different lender with more preferential interest rates.

We wouldn't consider, as standard, that a lender should be required to charge no interest at all for an extended period of time, which it would be here. And even if we did do that, as I've said above, Mr and Mrs B's income and expenditure assessment showed no affordability at all for any level of mortgage payment and the mortgage is already in significant arrears, so that wouldn't make any notable difference to their overall position. Another thing a lender can consider when a customer is struggling is whether a term extension or a temporary switch to interest only could help them. But here Mr and Mrs B's mortgage is already held on an interest only basis, and a term extension doesn't alter the monthly payments on an interest only mortgage.

From this we can see there are no amendments that can be made to the mortgage which would reduce the monthly payments. So that just leaves concessionary arrangements, which I understand Preferred has already discussed with Mr and Mrs B.

That said, if Mr and Mrs B are in a position to make any overpayments between now and the end of the mortgage term, Preferred should accept those (irrespective of whether or not they are of the minimum amount) and use them to reduce the mortgage balance. The contractual monthly payment shouldn't be adjusted, instead the overpayment should be used to reduce the mortgage balance, and thus the interest charged on the debt. Preferred shouldn't reject those or insist on a minimum amount be paid at a time.

As Mr and Mrs B are struggling to maintain their mortgage payments, and the mortgage term is due to end in 2029, then they should speak to Preferred to discuss their options, either directly or with the help of someone trained to give them debt advice - such as

StepChange or Citizens Advice. I'd encourage Mr and Mrs B to contact Preferred (either directly, or via an agency as I've explained above) and have an open and honest conversation about their circumstances and worries for both now and the future. They'll need to work together and that means Mr and Mrs B will need to be frank about their situation. And Preferred will need to listen to what they have to say and, fairly and sympathetically, see if there's a way to work with them to agree a way forward.

I understand this decision will be a disappointment to Mr and Mrs B and I give them my best wishes for both now and the future. But in terms of the complaint that was brought to us, I simply can't uphold it however much they may want me to.'

Preferred said it accepted my provisional decision. Mr and Mrs B provided copies of the original mortgage documents that they had obtained through an earlier data subject access request. They said an adviser had told them that the signatures on the documents didn't match and there were discrepancies in the documents. They also said when the mortgage was taken out they were told that they would be on a repayment mortgage after four years, but it didn't happen. They said if you look closely at the signatures they differ, not to mention that the mortgage paperwork does not say anything about moving to repayment. They said they didn't see half the paperwork at the time.

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

I had already considered the documents from when Mr and Mrs B took out the mortgage when reaching my provisional findings, as those documents were provided to us by Preferred. I understand Mr and Mrs B have concerns that some of the signatures don't match, but that's not something I can comment on as it doesn't form part of this complaint. All I am considering is:

- whether the mortgage should have automatically moved from interest-only to repayment after three or four years, and
- Mr and Mrs B's complaint that they've asked to move to repayment over the years but Preferred hasn't let them.

Whether or not a signature matches doesn't impact the outcome of those complaint points. As I said in my provisional decision, this mortgage was introduced by a broker, and the application that was submitted to Preferred was for an interest-only mortgage that would remain so for the full mortgage term. It wasn't an application for a mortgage that would be interest-only for the first three or four years and would then switch to repayment.

It may be Mr and Mrs B discussed with their broker the possibility of switching to repayment after a few years, but that didn't form part of the mortgage contract that was agreed with Preferred. If Mr and Mrs B feel they were misadvised by the broker, or the broker submitted the application on the wrong basis, then that is a complaint for the broker to deal with. I can't consider those issues in a complaint about Preferred.

The mortgage application that was made was for an interest-only mortgage, that is what Preferred granted and that is what is set out in the contractual mortgage offer.

I've read everything Mr and Mrs B have said and provided in response to my provisional decision and considered the entire file afresh. I understand how strongly Mr and Mrs B feel about it, and I've a great deal of sympathy for their situation but having considered everything very carefully I see no reason to depart from my provisional findings.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs B to accept or reject my decision before 18 February 2026.

Julia Meadows
Ombudsman