

## **complaint**

This complaint is about a mortgage and unsecured loan Mr and Mrs A have with NRAM plc. They're unhappy that the balance of the unsecured loan hasn't fallen by as much as they thought it would.

## **background**

Our adjudicator didn't think NRAM had done anything wrong. He tried to explain (as NRAM had done previously) that the balance does not reduce by a proportionate amount each year. Rather, it falls by very small increments in the early years of the loan term, but the rate of reduction gradually accelerates as the term progresses towards its conclusion.

Mr and Mrs A remain unhappy with this explanation and want their complaint reviewed by an ombudsman.

## **my findings**

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

Firstly, I should make clear that the mortgage and unsecured loan were sold to Mr and Mrs A by a third party intermediary, not by NRAM directly. That means that if they wish to complain that they were mis-sold the mortgage and loan as a result of a mistaken statement about how quickly the balance would fall, Mr and Mrs A would need to do that by way of a separate complaint to the intermediary that sold the mortgage.

All I can deal with here is whether NRAM has operated the loan correctly or not. The mortgage (the secured part of the borrowing) was for £223,250, plus fees, and was arranged on an interest-only basis. By definition, the outstanding balance of an interest-only loan doesn't reduce at all (unless the borrowers pay more than they are required to) so I'm satisfied that the issue for me to decide affects just the unsecured loan, which was taken out on a capital repayment basis.

The credit agreement for the unsecured loan shows that it was for £25,750. The loan was repayable over 300 months (i.e. 25 years) by monthly amounts of interest and capital. The interest rate was variable, so the amounts repayable could vary from those figures given on the agreement at the outset. The agreement also explains that interest would be charged on the outstanding balance each month.

The monthly payment for a loan like this comprises the interest for that month, plus an amount to reduce the capital balance. That means that each successive month that passes, the balance falls, which in turn means that the amount of interest charged the following month also falls. However, because the monthly payment doesn't change (unless the interest rate changes), the amount of capital reduction *increases* slightly in each successive month.

This isn't a linear process, but one that starts slowly and gradually increases over time until in the latter years, the majority of the monthly payment is capital reduction rather than interest. To illustrate the non-linear nature of capital reduction, a 25-year repayment loan will typically take the first 18 years for the balance to fall to half the original amount, with the second half being repaid in the remaining seven years.

Overall, I'm satisfied the explanation in NRAM's final response is accurate, and Mr and Mrs A haven't offered any evidence that the loan has been operated differently from how I'd expect it to be. It may be that the loan hasn't operated the way *they* expected it to, but I don't find that any incorrect expectation they may have is down to anything NRAM has told them.

Mr and Mrs A say they're unhappy with the lack of a proper response to their concerns about this. That may be so, but it seems to me that Mr and Mrs A simply haven't accepted the explanation they've been given. But that doesn't mean it's not a proper response.

**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 and Mrs A to accept or reject my decision before 9 November 2015.

Jeff Parrington  
**ombudsman**