DRN-4365625

Financial Ombudsman Service

The complaint

Mr H complains that Pepper (UK) Limited trading as Engage Credit has unfairly increased the interest rate on his mortgage. He also considers that Engage provided poor service.

What happened

In 2007, Mr H took out an interest only mortgage with Kensington. The mortgage had an initial fixed rate, followed by the standard variable rate (SVR) plus 1.05%

In 2021, Kensington told Mr H that the reference rate for the SVR – LIBOR – would not be available after December 2021. So it was going to replace LIBOR with the Kensington Synthetic LIBOR rate (KSLR).

In March 2022, Mr H's mortgage was transferred to Engage. The interest rate he was paying was 4.85%. The interest rate on the mortgage has gone up:

- June 2022, increase to 5.4%
- September 2022, increase to 6.45%
- December 2022, increase to 7.65%
- March 2023, increase to 8.35%

Mr H complained that the increases in the interest rates were unfair and that he'd received a poor service from Engage. He said the waiting times to speak to Engage were very long and that it had not called him back as requested.

The investigator did not think the complaint about the interest rates should be upheld. But he said that Engage should pay Mr H £100 for the distress and inconvenience caused by the lack of service.

Engage accepted what the investigator said. Mr H did not. He made a number of points, including:

- In 2007, LIBOR was 5.25%. SONIA – the replacement reference rate – is now 4.93% Yet, in 2007 the mortgage payments on the reversionary rate would have been £1,073.54 – but he is now paying £1,331.36, a difference of £257.82. So he is paying more despite the new reference rate being lower.
- When the mortgage was with Kensington, it applied a lower margin to the reference rate – it is unfair that Engage is charging a higher amount. He's been left to make higher mortgage payments through no fault of his own – and he has no choice but to do so.
- It was over a year before Engage told him that he owed fees on the mortgage – Kensington had told him that there were no outstanding fees.

- He did not consent to the mortgage being transferred to Engage. It was unfair he was switched from one company to another who has decided to charge him more money by maximising the margin it applies.

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.

The terms and conditions of the mortgage that Mr H took out allowed the lender to set the variable rate at its discretion providing the interest rate was never less than 1% or more than 3% above LIBOR. LIBOR had come to an end – so there was no choice other than to apply new terms.

The new terms said that the lender would round up SONIA in the same way it had for LIBOR, an adjustment of +0.1193% would be added to SONIA, a margin of up to 3% would be added and a further 1.05% in line with Mr H's mortgage offer – that produces KSLR.

In my view, it was reasonable for the lender to round up – it already did that with LIBOR. And the adjustment is in line with how the FCA has calculated its own synthetic LIBOR. The adjustment reflects the differences between LIBOR and SONIA over time. The remaining terms are also in line with the original mortgage but based on SONIA rather than LIBOR.

As far as I can see, Engage is acting in line with the terms and conditions that Mr H agreed to when he took out the mortgage – albeit with SONIA replacing LIBOR. The evidence I have shows that the margin being applied is the same as the previous lender was applying when the mortgage was transferred to Engage. So I can't see that Engage has increased the margin.

I am only looking at a complaint about Engage – so I can't comment on the margin was applied earlier in the mortgage. I haven't seen any evidence to show that Engage acted unfairly by maintaining the previous lender's margin at the time the mortgage was transferred to Engage or that there was any reason why the margin should have been reduced.

Overall, I don't consider that Engage has acted unfairly or unreasonably in setting the interest rate on Mr H's mortgage. It has acted in line with the terms and condition of the account. I know Mr H will be very disappointed and I realise the impact on him of the rate increases. But I have no reason to say that Engage should apply a different rate.

<u>Service</u>

Engage has accepted the investigator's conclusions that it didn't call Mr H back as promised or properly manage his expectation. I agree that this caused Mr H avoidable worry and inconvenience for around two months. I agree that £100 is fair compensation for that in all the circumstances.

I note the additional points Mr H has made. But there was no requirement under the terms of the mortgage for him to consent to the mortgage being transferred. The statement from Kensington only shows a very short period of time. I can't see it shows that there were no fees applied over the term of the mortgage or that Engage is claiming an incorrect amount.

My final decision

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

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr H to accept or reject my decision before 18 March 2024.

Ken Rose
Ombudsman