

The complaint

Mr and Mrs M complain that Elderbridge Limited led them to believe that their secured loan was paid off, only later to tell them they still owed a significant amount of interest.

What happened

In 2007, Mr and Mrs M took a secured loan for £61,000 with another lender. In 2008, when the loan was in arrears, the lender agreed to “suppress” interest as a concession.

In 2016, the loan was transferred to Elderbridge. In 2023, Mr and Mrs M said Elderbridge told them the loan had been repaid – only to then tell them that there was a balance of more than £30,000 to be repaid made up of the suppressed interest.

Mr and Mrs M complain that Elderbridge hasn’t treated them fairly. They said they couldn’t understand how such a large debt remained. They said it made them sick with worry having such a large secured debt left.

I issued a provisional decision explaining that there were parts of the complaint I couldn’t consider – and partially upholding the complaint I could look at. My provisional findings, which form part of this decision, were:

What I can’t look at

I agree with the investigator that we can’t look at events before April 2016 – but I think it is for slightly different reasons.

Under our rules, we can’t consider complaints that are referred to us more than six months after the date of a final response, unless the business consents and/or unless the failure to comply with the time limits was as a result of exceptional circumstances.

In April 2016, Elderbridge issued a final response to Mr and Mrs M. That dealt with the complaint that they were unhappy they weren’t told about the suppressed interest.

This complaint was referred to us on 24 January 2023. That is more than six months from the date of the 2016 final response, so it has been brought outside the time limits in our rules. Elderbridge hasn’t consented to us considering the complaint and I’m not aware of any exceptional circumstances that prevented Mr and Mrs M pursuing their complaint.

So I can’t look at how or why interest was suppressed or whether Mr and Mrs M were kept properly informed about that before April 2016. I know the focus of this complaint is events in 2023, but I think events pre-2016 were relevant. I don’t have the power to consider them.

Mr and Mrs M’s representative has made a number of points in response to the investigator that didn’t form part of this complaint. I understand they have made new complaints we are dealing with in another complaint, but for the sake of completeness I can’t consider:

- *The figures for the loans do not add up.*

- *Mr and Mrs M would never have been accepted for a loan of £61,000.*
- *There is no proof the proceeds of the loan were paid to Mr and Mrs M.*
- *The letters received over the term of the mortgage were unclear about how the balance was made up.*
- *The monthly payment was the same as it was when PPI was included, despite the PPI being refunded.*
- *Elderbridge is telling them the loan is unregulated, yet it is regulated by the FCA.*

In regard to the last point, just because a lender is regulated does not mean that it only dealt with regulated products. Mr and Mrs M took out the loan in 2007. At that point, second charge loans for over £25,000 were not regulated.

Suppressed interest

I know that Mr and Mrs M won't see it this way, but suppressing interest is actually in their interests. I say that because if interest had not been suppressed, they would have paid more interest overall.

Mr and Mrs M's loan balance was made up of two parts: 1) the capital, which is how much they borrowed from the lender 2) the interest, which is calculated on the loan balance. Without suppressing interest, the payments they made each month paid off part of the capital and any interest that had accrued. With these types of loans, it usually means that to begin with, a greater proportion of the payments go towards paying interest – and the capital balance reduces slowly.

When the lender suppressed interest, it calculated interest on the remaining capital balance – but on a simple rather than compounding basis – and it was applied to a separate account. All of the monthly payments that Mr and Mrs M made were used to reduce the capital balance. This meant that the capital balance was repaid more quickly than it otherwise would have been. It also meant that Mr and Mrs M paid less interest – it was calculated on the capital balance, which was lower than it would have been had interest not been suppressed.

I can't look at the original decision taken by the previous lender to suppress interest – that is out of time for the reasons explained above. But generally, suppressing interest is a positive concession for a borrower who is in arrears.

This complaint is about the communication by Elderbridge. That is it came as a surprise when Mrs M was told there was a balance of over £30,000 remaining – and that she was initially told that the loan was repaid.

Elderbridge had a duty to communicate in a way that was clear, fair and not misleading. In response to the 2016 complaint about suppressed interest, it told Mr and Mrs M "Now that your account is with Elderbridge we will ensure that our customers are fully aware of the account's status and any arrears that are present on the account."

I accept that Mr and Mrs M knew in 2016 that interest was being suppressed. But they would not necessarily have known what that meant about how the balance was going up or down or what that meant for them. I consider it would have been fair and reasonable for Elderbridge to give them clear and fair information about what the balance of the

suppressed interest was – I think that Mr and Mrs M had a reasonable expectation that is what Elderbridge would provide following the 2016 final response.

I asked Elderbridge about that. It said it sent Mr and Mrs M letters when direct debits were cancelled and when payment arrangements were agreed and they included the loan balance and amount of arrears.

I don't think those letters were sufficient either to show that Elderbridge acted in line with its promise in the 2016 final response or to comply with its requirement to communicate with Mr and Mrs M in a way that is clear, fair and not misleading. Those letters do not set out clearly the position of the account, that interest was being suppressed or what that meant for them. I don't think the letters went far enough to make sure Mr and Mrs M were "fully aware of the account's status".

I haven't been provided with any evidence that Elderbridge gave Mr and Mrs M enough information about the suppressed interest balance over the term of the loan. I accept that it was mentioned in phone calls. But Elderbridge accepts that it knew that Mrs M struggled to deal with this loan and that dealing with it made her ill. I don't consider that a phone call – or the way the information was presented in the letters that were sent - were the best way to deliver that information. Mr and Mrs M were clearly vulnerable because of what Mrs M had told it, the arrears on their account and their overall financial position. I can't see that was adequately taken into account in the communication with Mr and Mrs M.

Elderbridge paid Mr and Mrs M £75 because it incorrectly told her in a phone call that the account had been settled. I'm not sure that was sufficient for that error bearing in mind the impact on Mrs M. But it is part of a wider problem – Mr and Mrs M were confused about the status of their account because they hadn't been given clear, fair and not misleading information about it. If they'd been given fair information about the loan they would have known that it could not be correct that the loan had been paid off.

I don't think the lack of information about the loan was the only or main source of worry for Mrs M in regard to the loan. The evidence I have shows that she was still distressed about the loan when she found out the true position. But I think the lack of clear, fair and not misleading information presented in an accessible and useful way has added to the upset they've experienced since 2016. In view of the impact on Mrs M in particular since 2016, I consider £300 is fair in the circumstances to reflect the distress caused to them. Elderbridge has already paid Mrs M £75 – so my award will be £225.

Both Elderbridge and Mr and Mrs M did not accept my provisional conclusions.

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've thought carefully about what Elderbridge has said. Its response is a little confusing. It said there was no regulatory requirement to send annual statements, annual statements contain information about suspended and accrued interest, Mr and Mrs M could request a statement and it is in the process of providing statements for unregulated loans. But I can't see that it has given us any annual statements it actually sent to Mr and Mrs M.

I understand that that Elderbridge is concerned because of Mrs M's vulnerability. But I don't consider that is good reason not to keep her informed about the loan – it did not stop Elderbridge sending other letters to Mr and Mrs M. Part of Mrs M's concern is that she does not understand how the loan works. It's clear the communication so far – however well

intentioned – has not addressed that. While the final responses might set out the position as it was at the time, it is reasonable to want regular updates. And bearing in mind what Elderbridge has said, I would question whether a phone call is the best method to use to set out relatively detailed information about the loan.

I am only awarding total compensation of £300 for the complaint I am considering here, which is about the communication about the loan balance and suppressed interest and being led to believe the loan was repaid. So Mr and Mrs M's representative's points about inconsistent figures, the affordability of the debt and the letters Elderbridge sends, which they think are threatening, are not relevant to this complaint and have no bearing on the amount of compensation.

After reviewing everything again, for the reasons set out in my provisional decision, I still consider Elderbridge should pay Mr and Mrs M a total of £300 – so as it has already paid them £75 another £225.

My final decision

My final decision is that Elderbridge Limited should pay Mr and Mrs M £225.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 10 April 2024.

Ken Rose
Ombudsman