complaint

Mr and Mrs P complain that they have not been treated fairly by Pepper (UK) Limited, trading as Engage Credit, when they came to the end of their mortgage term.

background

Mr and Mrs P have an interest only mortgage with Engage. The term ended in December 2014. Some months before the end of the term, Mr and Mrs P contacted Engage to discuss their options. Engage refused a five year interest only term extension because of Mr and Mrs P's ages, and refused a five year term extension on a repayment basis because that wouldn't be affordable.

Due to previous financial problems, Mr and Mrs P no longer have a repayment vehicle for the mortgage. They said that they wanted to re-mortgage to another lender and had an agreement in principle. But they couldn't make the formal application until April or May 2015, when historic entries relating to their previous financial troubles fell off their credit record. They asked for an extension until June 2015, but Engage refused.

Mr and Mrs P complained. Engage offered to stop enforcement action until the end of June 2015 so that Mr and Mrs P could apply for a mortgage elsewhere. Mr and Mrs P initially accepted that. But Engage wasn't willing to extend the term to June 2015, merely to suspend enforcement action. This meant that it stopped reporting the mortgage to the credit reference agencies – even though Mr and Mrs P were still making their monthly payments. It would not make a report outside the term.

The result was that Mr and Mrs P couldn't apply for another mortgage elsewhere because they now had payment gaps on their credit record. Their record showed a mortgage to which no payments were being made – even though they were paying it each month.

Our adjudicator asked Engage to report the payments so that Mr and Mrs P had a continuous payment history they could use to apply to another lender. Engage said it wouldn't, because the term had ended. Nor would it extend the term. And it made clear that it would resume enforcement action at the end of June 2015, even if Mr and Mrs P's complaint to this service hadn't concluded by then.

So the case came to me. I agreed with the settlement that the adjudicator tried to reach when she dealt with the complaint. But as matters have moved on since then, I issued a provisional decision to set out what I think now should happen.

my provisional decision

In my provisional decision, I said:

> I think that Engage has behaved unreasonably in this case. When Mr and Mrs P's term came to an end it refused any assistance to them. It wouldn't consider a term extension because of their ages. When they came up with a realistic alternative plan, it dismissed that too and simply said that they must pay back the capital in full at the end of the term.
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> Engage finally agreed not to take enforcement action for six months. But it refused to extend the term or report Mr and Mrs P's payments to the credit reference agencies.

This was despite knowing that this would frustrate their plans to take the mortgage elsewhere. Engage's refusal to assist Mr and Mrs P has created a situation where possession proceedings look inevitable.

I think that Mr and Mrs P's alternative plan is credible and realistic. They should be given the chance to move their mortgage elsewhere. To do that, they need an uninterrupted run of payments on their credit record. The only way that that can happen is if Engage extends the term – so that is what I think Engage should do.

Had it acted sympathetically when first approached by Mr and Mrs P last year, a term extension to June 2015 would probably have been enough. But it will not now be enough. To allow enough time for Mr and Mrs P to complete their credit history and move to a new lender, I propose to extend the term by two years, backdated to December 2014.

Engage should backdate the term extension and report all payments since December 2014 to the credit reference agencies as if they had been made during a term extension. This will put Mr and Mrs P as far as possible back in the position they would have been had an extension been granted on expiry of the original term.

Finally, Engage should pay Mr and Mrs P £500 as compensation for the considerable trouble and upset it caused by its failure to help them sooner.

Engage has made clear that it isn't prepared to suspend enforcement action beyond the end of June 2015. So I am shortening the usual period for responding to this provisional decision from one month to two weeks. This will allow me time to issue a final decision before the end of June 2015.

the responses to my provisional decision

Both parties responded within the shortened time-frame I set out. Mr and Mrs P accepted my decision. They said in addition that Engage had told them it would charge them £25 per day after the term ended in December 2014 until the mortgage was settled, which they didn't think fair.

Engage said it was sympathetic to Mr and Mrs P's situation. But they should have foreseen their situation and made arrangements to redeem the mortgage at its term. It isn't its policy to vary the term of its mortgages. It will provide a reference or account history to help them go elsewhere, but isn't prepared to extend the term. It offered to extend its forbearance until September 2015.

my findings

I have considered again all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. I have also considered my provisional decision again in light of the responses to it. But having done so, I haven't changed my mind.

Mr and Mrs P have explained why they were unable to re-mortgage before the end of the term. I accept that it isn't Engage's policy to extend the terms of its mortgages. But it must accept that rigid adherence to its policy will from time to time produce an unfair result. This is, in my view, one of those times. A short extension to the term would have allowed Mr and Mrs P to re-mortgage shortly after expiry; refusal of an extension has created a situation where they can't redeem, leaving ultimately no option but possession proceedings. That isn't in the interests of either party.

Had Engage shown some willingness to consider Mr and Mrs P's individual circumstances, it is likely that they would have re-mortgaged elsewhere by now. As it didn't, it will take Mr and Mrs P some time to put the arrangements in place. Engage must give them that time – and compensate them for the inconvenience it has caused.

I don't know if Engage has applied any charges to the account since the term expired. But I am directing the back-dating of the term extension. So it follows that there will not be a time when Mr and Mrs P's mortgage has been out of term, and so any fees charged for that should be removed as part of the backdating.

my final decision

For the reasons I have given, my final decision is that I uphold this complaint and direct Pepper (UK) Limited trading as Engage Credit to:

- Extend the term of Mr and Mrs P's mortgage to December 2016, backdated to December 2014, removing any fees added to the account because the term had ended;
- Report all payments made since December 2014 to the credit reference agencies as if they had been made during the mortgage term;
- Pay – not credit – Mr and Mrs P £500 compensation.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs P to accept or reject my decision before 9 July 2015.

Simon Pugh
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