DRN-4514874

The complaint

Ms J complains about how Together Personal Finance managed the interest rate on her mortgage.

What happened

In 2008, Ms J took out a mortgage with Cheshire Mortgage Corporation, which is now Together. The mortgage had a variable interest rate of 10.5% discounted by 2% for the first twelve months. The offer said that the terms of the mortgage reflected past or present financial difficulties. In 2010 Ms J repaid the mortgage.

Ms J complains that once the discounted period ended, the interest rate on her mortgage did not change. That is despite the interest rate being described as "variable" and interest rates reducing significantly soon after the mortgage was taken out. Ms J said the interest rate was effectively fixed – and that has caused her worry as she was struggling financially.

The investigator did not think the complaint should be upheld. He said that neither Together nor Ms J had a copy of the terms and conditions. But he did not consider that Together had acted unfairly in setting the variable rate. He accepted that like many lenders its cost of funding was not directly linked to changes in the Bank of England base rate (the base rate). Although it appeared that its cost of funding went down slightly, it was not to the same extent as changes in the base rate – and it had other costs that went up.

The investigator pointed out that the mortgage reflected past or present financial difficulty – and because Together's position in the market, it found it difficult to raise funds on terms that were as favourable as other lenders. Overall he did not consider that Together's decision not to vary the interest rate on Ms J's mortgage was unfair.

Ms J did not accept what the investigator said. She made a number of points, including:

- She didn't accept that Together could not change her payment – even by a small amount. The fact it didn't do so suggest that it never intended to vary it from the start. Offering a variable rate mortgage was a "ruse" to get her to take the mortgage on the basis of her belied that interest rates would go down in the future.

- If Together operated differently to high streel lenders with regard to the interest rates it should have made that clear at the outset.

- She wanted to see evidence of the interest rates it offered to new customers once the base rate dropped. It would not have been able to compete in the market if it was offering the same rates she had to new customers.

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.

We don't have a copy of the terms and conditions for this mortgage. That isn't unusual, the mortgage was repaid more than ten years ago, so there was no need for Together to retain a copy. That means I can't consider what the terms and conditions said about the variable rate, including the reasons why Together could change it. I need to decide what I consider to be fair and reasonable in the circumstances of this complaint based on the evidence we do have.

While the mortgage offer describes the interest rate as "variable" it did not set out any circumstances in which the interest rate would be varied. I can't see that it reasonably set the expectation that it would track the base rate or that changes in the base rate were a relevant factor in how the rate was set.

The base rate went down from late 2008 to a historically low rate in March 2009 – and remained there until 2016. So I can see why Ms J felt it was unfair that she was paying a significantly higher interest rate on her mortgage. It was the financial crisis in 2007-2008 that led to the reduction in interest rates. But one of the impacts of the crisis was that "sub-prime" or credit impaired mortgages (like Ms J had) were viewed as being much more risky than they were before the crisis. And that was primarily the market that Together was in.

In view of the above – and in my own experience – I accept that what Together has told us about the ability to raise funds, its cost of funds and other costs is likely to be accurate. There was very little real link between the base rate and the cost to Together of raising funds. It follows that it had not acted unfairly by not passing on any reduction in costs to Ms J – the evidence we have does not support that there was any reduction to pass on.

There is no evidence that Together labelled the interest rate as "variable" just to get Ms J to take the mortgage. It seems more likely that following the financial crisis soon after Ms J took out the mortgage, it made it difficult for Together to raise funds so it could not vary the interest rate.

The rules in place at the time in question required Together to state on the mortgage offer that the terms of the mortgage reflected past or present financial difficulties. There was no requirement for it to highlight that it was not a "high street" lender. I think it did enough in setting out the type of mortgage Ms J was taking.

There was no requirement for Together to offer the same rates to new borrowers as it did to existing borrowers. So even if Together was offering lower interest rates to new borrowers, it wouldn't follow that it had set Ms J's interest rate unfairly or that it was required to vary the interest rate.

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 Ms J to accept or reject my decision before 5 February 2024.

Ken Rose
Ombudsman