

The complaint

Mr and Mrs R are unhappy that London and Country Mortgages Ltd (“L&C”) gave them the wrong figure for the monthly payments they’d have to pay if they used the offset facility of their mortgage.

What happened

Mr and Mrs R went to L&C for advice about remortgaging their existing property. It was identified that they had an interest in products that were fixed for five years and that would allow them to offset their savings against the mortgage, with the aim to reduce the monthly payments (rather than reduce the mortgage term).

They borrowed £275,000 on a repayment basis over a 14-year term. The rate is fixed at 1.89% until 29 February 2024 and they opted to add the £999 product fee to the mortgage.

After the mortgage completed Mr and Mrs R complained to L&C as the monthly payments they were being asked for – after putting £150,000 into the linked offset savings account – were a lot higher than the adviser had said they’d be. They’d been told it would be £847 a month, whereas they had to pay £1,400 a month.

L&C apologised for its mistake and offered £300 compensation. It said Mr and Mrs R couldn’t have achieved a payment of £847 a month unless they extended the mortgage term, something it offered to arrange for them. Mr and Mrs R didn’t want that, they wanted L&C to either pay the early repayment charge to allow them to come out of the mortgage early, or to pay the extra amount they say they’ll have to pay for the full 14-year term.

Our investigator felt L&C’s offer was fair and didn’t uphold the complaint. Mr and Mrs R didn’t agree and so it’s been passed to me to decide.

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.

Although I’ve read and considered the whole file I’ll keep my comments to what I think is relevant. If I don’t comment on any specific point it’s not because I’ve not considered it but because I don’t think I need to comment on it in order to reach the right outcome.

Whilst I acknowledge how frustrating it is when a business makes a mistake, mistakes do happen. In this case it was simple human error that meant Mr and Mrs R were led to believe that their monthly repayment (after offsetting) would be lower than it actually is. This is a mistaken statement of facts; a misrepresentation. When we’re looking at complaints of this type we consider the appropriate remedy is to place the consumer in the position they would be in if the incorrect information hadn’t been given. We don’t put them in the position they would be in if it had been correct.

If the correct information had been given, Mr and Mrs R would have been told what the actual payment they’d need to make was. Mr and Mrs R could never have been in the position where they only needed to repay the (wrong) lower figure.

Just by looking at the maths, the figure of £847 a month could never have been right for a 14 year (that is, 168 month) repayment mortgage. That's because, even if Mr and Mrs R's mortgage was interest-free (that is, they put £275,999 savings into the linked offset account, rather than the £150,000), then they'd have to pay around £1,643 a month just to repay the amount of money they'd borrowed. That's £275,999 divided by the 168 months the mortgage was set to run for. If they'd paid just £847 a month for the 168-month term, then they'd only have repaid £142,296 so they'd still owe £133,703 at the end.

Irrespective of what lender Mr and Mrs R went to the lowest amount they could pay each month (so that's equivalent to an interest-free mortgage) over a 14-year term would have been around £1,643 a month.

I've thought carefully about what Mr and Mrs R might have done differently had they been given the correct information. L&C has already offered to arrange to extend the term of the mortgage to decrease the payments, which Mr and Mrs R didn't want to do. I've looked at what other rates there were available in the market at the time. Not many lenders offered offset mortgages that allowed you to pay less each month and of the ones that did the mortgage selected for Mr and Mrs R had the lowest five-year fixed interest rate at the time. Even putting aside the offset facility, the mortgage rate Mr and Mrs R have (at 1.89%) was one of the lowest five-year fixed interest rates available in the market at the time.

Having considered everything I'm satisfied that if Mr and Mrs R had been given the correct information at the time about their monthly payments then they would have chosen to still proceed with this mortgage.

It's not our role to fine or punish a business and our awards aren't punitive. Clearly no amount of compensation can change what happened; all I can do is consider the impact of a business's actions on the consumer. I also look at the awards of compensation we've made in other similar cases. Having done so I'm satisfied that the £300 compensation already offered by L&C is fair.

My final decision

My decision is that I don't uphold this complaint, in the sense I consider L&C made a fair offer. I leave it to Mr and Mrs R to decide if – on reflection – they now wish to accept that directly with L&C. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs R to accept or reject my decision before 29 June 2020.

Julia Meadows
Ombudsman