

The complaint

Mr B and Ms P complain that Bank of Scotland plc (trading as Birmingham Midshires) hasn't calculated their contractual monthly payments (CMP) correctly. Mr B has dealt with the complaint.

What happened

Mr B says Birmingham Midshires didn't calculate their CMP correctly. He says the amount of capital they repay each month isn't enough to repay the mortgage by the end of the term.

Our investigator said Birmingham Midshires explained how the mortgage would be repaid and hadn't made an error with Mr B and Ms P's CMPs.

Mr B didn't agree and asked that an ombudsman re-consider the complaint. Mr B and Ms P have recently repaid the mortgage.

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.

Mr B and Ms P had a repayment mortgage. Birmingham Midshires calculated the amount they needed to pay each month to repay the mortgage by the end of the term. Birmingham Midshires refers to this as the contractual monthly subscription. It's also referred to as the contractual monthly payment or CMP, which is the term I've used here.

Each CMP is made up of accrued interest and a capital repayment. The amount of interest is higher in the early years of a mortgage, when the balance is higher. As the balance reduces over the life of the mortgage, the lower balance means less interest is applied each month (assuming of course that interest rates don't increase). Towards the end of the mortgage term almost all of the CMP is applied to repay the capital. The change in the proportion of interest versus capital is more marked when the interest rate is higher.

Mr B's concern was that the amount of capital they paid each month wasn't enough to repay the mortgage by the end of the term. As an example, he says the capital repayment in June 2023 was about £400. Mr B says the amount applied to repay capital was less than £400 each month for the remainder of 2023. This compares to monthly capital repayments of around £450 to £500 in 2022. Mr B says paying about £400 each month wasn't enough to repay the mortgage by the end of the term.

Concerned that their monthly payments wouldn't be enough to repay the mortgage, Mr B and Ms P decided to redeem the mortgage in January 2024.

Mr B said the amount of capital being repaid each month decreased in 2023 to an amount that wasn't enough to repay the mortgage by the end of the term. But that would only be the case if the amount repaid each month didn't increase.

Birmingham Midshires sent a spread sheet that showed how the mortgage would be repaid

by late 3034 if the interest rate and the CMP remained the same from September 2023. About £385 of the CMP due in October 2023 would be applied as a capital repayment. This would increase to about £400 in October 2024 and to about £435 in October 2025. The amount of capital being repaid each month would increase to about £545 by October 2028 and to about £785 by October 3033. The spread sheet showed the balance reducing each month through the period and repaid by the end of the term.

I appreciate Mr B's concern that the CMP decreased between 2022 and 2023. But that was because of the higher interest rate being applied to their account. Mr B and Ms P's mortgage was on a tracker rate which increased a number of times from late 2022 through 2023. The higher interest rate affected how the proportion of the CMP applied to interest versus capital would change over the remaining term. Birmingham Midshires had to take this into account when it re-calculated Mr B and Ms P's CMP following changes in the interest rate.

I do understand that Mr B and Ms P were worried about their mortgage being repaid by the end of the term. But I don't think Birmingham Midshires made an error with their CMP. I think it made reasonable efforts to explain how the CMP was calculated and to reassure Mr B and Ms P that the mortgage would be repaid by the end of the term. It follows that I don't uphold this complaint.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Ms P to accept or reject my decision before 8 March 2024.

Ruth Stevenson
Ombudsman