

The complaint

Mr P is unhappy with the changes that Rooftop Mortgages Limited ("Rooftop") have made to the London Interbank Offered Rate ("LIBOR") on his mortgage.

What happened

Mr P has a mortgage with Rooftop. The interest rate on the mortgage was the three-month LIBOR plus a margin of 2.05%.

Rooftop wrote to their customers on 21 June 2021 to say that at the end of 2021 LIBOR would no longer be published, so it needed to use a different reference rate to calculate the interest rate on Mr P's mortgage.

Rooftop sent another letter to its customers on 10 December 2021 which confirmed that the Financial Conduct Authority ("FCA") had decided that the synthetic LIBOR would be used for at least 12 months. The FCA believed the synthetic LIBOR to be a reasonable and fair approximation of the value that the LIBOR would have been had it continued.

Rooftop wrote to Mr P again on 25 July 2023 confirming that the interest rate would be changing as the FCA only permitted the use of the synthetic LIBOR rate until 31 March 2024. It was explained that Rooftop had chosen to switch the reference rate on his mortgage to Term Sterling Overnight Index Average ("SONIA"). There would also be a "credit adjustment spread" ("CAS") which was an additional interest amount fixed for the term of the mortgage.

Mr P said he doesn't know how this rate is calculated and disagrees with the fact that Rooftop have replaced LIBOR with SONIA. He believes that the FCA allows and suggests the LIBOR to be replaced with the Bank of England base rate (BoE base rate). He said he can't take out another mortgage because Rooftop don't offer any other products.

Mr P brought his complaint to the Financial Ombudsman Service where it was looked at by one of our investigators. Our investigator didn't uphold the complaint and didn't think that Rooftop had done anything wrong in applying the SONIA reference rate to Mr P's mortgage.

Mr P disagreed. He made reference to the following paragraph which the investigator mentioned in her opinion in relation to the terms and conditions of the mortgage:

'If LIBOR is not available from any of the above sources on the relevant quotation day, LIBOR will be another rate of interest which we reasonably decide represents a comparable rate of interest for three-month sterling deposits at or about 11:00am (London time) on that quotation day. If we decide that another rate of interest is to be LIBOR for any rate period, we will tell you within 14 days'.

Mr P said this was meant for a temporary change and not a permanent one.

In summary, he also made the following comments:

- He thinks it's unfair that Rooftop can decide a rate without any check from the FCA and doesn't agree that CAS should be calculated on top of the SONIA rate.
- Prior to Mr P complaining to Rooftop, they sent him a document to sign that he agreed to change from LIBOR to SONIA which he did not want to sign. Why did they ask him to agree to it if Rooftop can just decide to replace LIBOR with SONIA and

CAS. He believes this is unfair.

- The FCA suggested that the LIBOR was replaced with BoE base rate – they didn't do this.
- He doesn't think that Rooftop should be able to replace LIBOR with any rate they think is comparable without anyone else having a say in their decision.
- It is very expensive for customers to take on big banks in court. Customers are not on equal footings. The FCA decided to remove LIBOR but they should not move the burden onto customers especially when they could have used the BoE rate instead.

As Mr P disagreed with the investigator, he asked for the complaint to be reviewed by an Ombudsman, 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.

I agree that when Mr P took out the mortgage, it was on the expectation that the reversionary rate would be based on LIBOR being used as the reference rate. But LIBOR ceased to exist on 31 December 2021. So it was reasonable for Rooftop to substitute a replacement reference rate. The terms and conditions of the mortgage allow Rooftop to substitute a rate which it *"reasonably decide represents a comparable rate of interest for three months sterling deposits..."*

I have noted that Mr P has argued that the terms and conditions surrounding the LIBOR rate are a temporary measure where LIBOR is not available, rather than it being a permanent change. I don't agree with this. Although this term highlights how Rooftop will calculate the mortgage if LIBOR is not available, they have used the same terms and conditions to apply a new reference rate now that LIBOR is no longer available. As Mr P quite rightly pointed out, no-one would have foreseen in 2007 when he took the mortgage out that LIBOR would cease to exist, and the same can be said for Rooftop, as they couldn't have known that LIBOR would cease to exist either. They have applied a new reference rate based on their terms and conditions at the time to benchmark a new reference rate when LIBOR was no longer available. So I'm satisfied that the terms and conditions allowed them to do this.

The FCA has issued guidance about what a fair replacement rate for LIBOR is likely to be. I'm satisfied that the replacement rates offered by Rooftop are in line with that guidance which doesn't specifically say that the reference rate should be the BoE base rate. The regulator's guidance is one of the things I must take into account when deciding what in my opinion is fair and reasonable in the individual circumstances of the complaint.

The changes are also in line with what other lenders have done. In view of those things, I'm satisfied that Rooftop acted fairly and reasonably in changing the reference rate on Mr P's mortgage.

Rooftop chose Term SONIA as the benchmark rate in replacing synthetic LIBOR and on top of that, they added a further set uplift known as CAS. Mr P doesn't feel it's fair for them to do this.

Rooftop have added CAS to Term SONIA as it's a fair approximation of LIBOR's value had LIBOR continued to be published in the same way.

LIBOR and SONIA are calculated in a different way which has led to SONIA being typically lower than LIBOR so, to ensure a fair conversion of existing contracts such as Mr P's, a small adjustment is needed to account for this difference. This is normal and many lenders in this situation have taken the same stance in adding a CAS.

The CAS according to Rooftop's website, is fixed at 0.1193% and is added to Term SONIA in order to reflect the historic average difference between LIBOR and SONIA, and to replicate as far as possible the rate of interest which Mr P would have been charged had LIBOR continued. This is consistent with the way synthetic LIBOR has been calculated. This is calculated by taking Term SONIA rate plus an additional rate (also fixed at 0.1193%) which is based on the three-month synthetic LIBOR rate.

I therefore can't say that the CAS has been added unfairly.

Mr P has also questioned why he was asked to consent to the changes that Rooftop wanted to make, if they were going to make them anyway. Mr P said he didn't want to sign the agreement that Rooftop had sent, but they applied the SONIA reference rate anyway. As Mr P is aware, LIBOR ceased to exist so Rooftop had to make changes to the way his mortgage was calculated in the most appropriate way possible. Whether Mr P consented or not, his mortgage still had to have interest charged to it and Rooftop chose Term SONIA plus CAS as this was deemed a fair approximation in comparison to LIBOR. The issue here is that Mr P doesn't agree with the reference rate being the SONIA rate plus the CAS.

Like I've already said, Rooftop have taken the FCA guidance into account when deciding what reference rate they should apply to Mr P's mortgage – and the other customers they have, and I haven't seen anything that says they have gone against that guidance.

Mr P isn't being treated any differently to Rooftop's other customers so I can't say that he has been singled out in how his mortgage has been calculated.

Mr P has said he is unable to change interest rate with Rooftop as they don't offer new products. Rooftop are unable to provide Mr P with a new mortgage as they stopped lending in 2007. There are no barriers to Mr P moving to a different lender if he is unhappy with the changes that Rooftop has made to his mortgage. He may want to seek independent financial advice to see what options are available to him.

I appreciate that Mr P will be disappointed with my decision, but I'm satisfied that Rooftop have acted fairly when applying the reference rate to Mr P's mortgage.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 4 July 2024.

Maria Drury
Ombudsman