

## **The complaint**

Mr and Mrs B have complained that their mortgage they hold with Santander UK Plc moved to a reversionary rate from 2 August 2023 as they say they were told it would remain on a fixed rate until the end of the mortgage term.

## **What happened**

Mr and Mrs B took out their interest only mortgage with Santander in December 2007 over a 16-year term. The mortgage had been on Santander's standard variable rate since 2013.

On 24 May 2021 Santander spoke to Mr B and, following that, it issued a product transfer mortgage offer. The offer said 'To be eligible for the new product, you must make a capital repayment of £1,666.82 to reduce your mortgage balance.' The offer was for a fixed rate of 2.09% until 2 August 2023, after which interest would be charged at Santander's follow on rate which it explained was a variable rate that tracked at 3.25% above the Bank of England base rate (base rate).

Later in the call when it came to light there had been some confusion and Mr B wasn't in a position to pay a lump sum of £1,666.82 immediately, Santander issued a second product transfer mortgage offer, and that offer didn't have the requirement for the mortgage balance to be reduced by £1,666.82. The offer was for a fixed rate of 2.49% until 2 August 2023, after which interest would be charged at Santander's follow on rate which it explained was a variable rate that tracked at 3.25% above base rate.

The second offer confirmed the remaining overall mortgage term was two years and seven months and said (if everything remained unchanged, such as the mortgage balance and base rate) that Mr and Mrs B would pay £169.04 a month until 2 August 2023, and then £227.42 a month until 2 February 2024. It said if the follow on rate went up by 1% then the monthly payment applicable after 2 August 2023 would go up by £67.88.

Santander's records show that Mr and Mrs B accepted the second mortgage offer, which was for the 2.49% fixed rate, online on 25 May 2021.

On 28 May 2021 Santander wrote to Mr and Mrs B to confirm the transfer to the 2.49% fixed rate product had taken effect from 25 May 2021.

Mr and Mrs B were sent annual mortgage statements in January 2022 and January 2023.

Santander wrote to Mr and Mrs B on 3 August 2023 to remind them that the fixed rate product had ended that day, and they had now moved onto the reversionary rate which was 8.25% at that time.

On 31 August 2023 Santander wrote to Mr and Mrs B to remind them their mortgage was close to maturity, with it due to end on 21 December 2023, and that as all or part of it was held on an interest only basis then Mr and Mrs B needed to repay the outstanding balance at that point.

Unhappy with the increase in payments, Mr and Mrs B raised a complaint with Santander, which it responded to on 8 September 2023. It summarised the complaint as:

‘You stated that you were unhappy that your Mortgage instalments had increased due to your rate ending on the 2 August 2023. You stated that you were not advised that your rate would end on the 2 August 2023, and believed the 2.49% rate was fixed until your Interest Only Mortgage expired.

As a result of the payments increasing, you advised that you will not be able to maintain the final 4 instalments and advised that you have cancelled the Direct Debit, and will continue to pay what you have been paying the last 2 years.’

It said the product conversion terms and conditions confirmed the rate was fixed until 2 August 2023, and thereafter the mortgage would be moved onto the reversionary rate. It said as there were only four months remaining of the mortgage term that it couldn’t put a new preferential rate in force, and Mr and Mrs B had accepted the fixed rate online on 25 May 2021.

Mr and Mrs B didn’t agree and told Santander they would only be paying the monthly payment that had been due under the fixed rate, not the higher amount required under the follow on rate. That led to arrears building on the account.

Mr and Mrs B referred the complaint to our service on 6 December 2023, with the mortgage term then ending on 21 December 2023.

Our Investigator didn’t uphold the complaint. She said the mortgage offer showed the fixed rate would only run until 2 August 2023 and Santander had acted in line with that contract so she didn’t uphold the complaint.

Mr and Mrs B didn’t agree, saying there was no mention in the letter of 28 May 2024 of the interest rate going up, and they have proof they didn’t sign to accept the mortgage offer, sending a copy of an unsigned offer that they held.

### **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.

Santander issued two mortgage offers on 24 May 2021, one that required Mr and Mrs B to make a payment of £1,666 to reduce their mortgage balance to obtain a fixed rate of 2.09%, and the other required no lump sum payment and was for a fixed rate of 2.49%. Both mortgage offers confirmed the fixed rates would run until 2 August 2023, and that after that date the mortgage would revert to Santander’s follow on rate which was base rate plus 3.25%.

Mr and Mrs B say they didn’t accept the rate, providing an unsigned acceptance form as evidence, but there are two issues with that. The first being the page they provided was to accept the 2.09% fixed rate (which they didn’t accept, instead accepting the mortgage offer for the 2.49% fixed rate), and the second was that Santander’s records show that the offer was accepted online by Mr and Mrs B (which was also the process discussed in the call of 24 May 2021), it wasn’t accepted by them signing and returning an acceptance form in the post.

It is also contrary to Mr and Mrs B’s original complaint, which was that they *did* accept the fixed rate product, but that they thought it ran for the remainder of the mortgage term, rather

than just until 2 August 2023.

If I were to consider and uphold a complaint that Mr and Mrs B didn't accept the rate at all, then to put things right Santander would need to move them back to the standard variable rate, backdating that to 25 May 2021 (in effect completely unwinding the fixed rate). To be clear, I'm not upholding this part of Mr and Mrs B's complaint as I'm satisfied they did accept it online, as Santander has provided evidence of that and otherwise I would have expected Mr and Mrs B to have raised a complaint immediately they moved onto that rate if that wasn't what they had wanted (and accepted). But for completeness I thought it was best to explain to Mr and Mrs B what the consequences of such a complaint being upheld would have been. The rate of interest that Mr and Mrs B were charged from 25 May 2021 until 2 August 2023 was 2.49%, which was significantly lower than the standard variable rate they would have remained on had they not taken this fixed rate. In May 2021 the standard variable rate was 4.34% and it has increased significantly since then. If the mortgage account was unwound as if the fixed rate had never been taken, the result of that would mean Mr and Mrs B had significantly underpaid their mortgage over that two-year period and would owe Santander extra money.

The mortgage offer was clear that it was a fixed rate of 2.49% until 2 August 2023, and after that it would move to the follow on rate of 3.25% above base rate (which was 0.10% at the time of the offer, giving an interest rate of 3.35%). It was on that basis that Mr and Mrs B agreed to transfer to the fixed rate product.

Mr and Mrs B have provided a copy of a letter that was sent to them on 28 May 2021, which was a few days after the new rate had gone live, saying that shows the rate is fixed for the remainder of the term. But that's not the case. The letter says

Loan Balance	Interest Rate	Loan Term
81,169.25	2.49%	2 years 7 months

So whilst it is stating the current interest rate is 2.49%, the mention of 2 years and 7 months relates to the 'loan term'; that is, the remaining term of the mortgage account, not the period the interest rate is fixed for.

As this letter wasn't sent until after the product transfer had taken effect, Mr and Mrs B couldn't have been swayed into taking out the product transfer by what they believed it said, as they'd already applied for and accepted the new rate before this letter was sent.

Mr and Mrs B were sent annual mortgage statements in January 2022 and January 2023, and both of those state the fixed rate only runs until 2 August 2023, but the overall mortgage term runs until December 2023.

I've listened very carefully to the call of 24 May 2021 between Mr B and Santander in which the new rate was discussed and which led to the mortgage offer being emailed to him.

It is clear there was confusion on the call, and I think the adviser could have handled the call much better than she did, but this complaint isn't about the general call handling, rather it is about a very specific issue which is whether or not Mr and Mrs B were given incorrect information about when their fixed rate would end.

Having listened to the call in its entirety, I'm satisfied that the adviser didn't tell Mr B that the rate would run for the remainder of the term. Instead, she twice said the rate would be '*...fixed up until the 2<sup>nd</sup> of August 2023...*' and explained that it would then move to Santander's follow on rate which she said was 3.25% above base rate.

Mr B confirmed he was happy to proceed with the fixed rate, and the adviser explained the next steps in that the paperwork would be emailed to Mr B and that he and Mrs B needed to read the offer carefully and let the adviser know if they had any questions. The adviser said if Mr and Mrs B were happy to proceed after reading the paperwork then they could accept the offer by following the steps online from the link that would be included in the email. It seems from the evidence Santander has provided that this is what Mr and Mrs B did.

There wasn't a product that would have allowed Mr and Mrs B to have a fixed interest rate that would have run until 21 December 2023 (the end of their mortgage term). Their options were always to remain on the standard variable rate at 4.34% (variable) or move to the 2.49% fixed rate until 2 August 2023 and then pay the follow on rate from 2 August 2023 until the mortgage is redeemed (which should have been on 21 December 2023).

Having considered everything very carefully, I don't uphold this complaint.

### **My final decision**

I don't uphold this complaint.

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

Julia Meadows

**Ombudsman**