

## The complaint

Mr S complains that Yorkshire Building Society (YBS):

- Has applied the wrong margin to the tracker interest rate product on his mortgage.
- Gave him misleading information about the margin that would apply.

## What happened

In June 2022, Mr S took out a mortgage with YBS. The mortgage offer said the interest rate that would apply was:

*A variable rate which is Bank of England's Base Rate, currently 1.00%, giving a current rate payable of 1.89% until this ends on 31 July 2024. The variable rate will not go below a floor of 1.89%. (Product Code 87296)*

*Followed by a variable rate which is 0.99% below Standard Variable Rate, currently 4.74%, giving a current rate payable of 3.75% until this ends on 31 July 2027.*

Mr S said he chose an interest rate that would track the Bank of England base rate (the base rate), subject to a floor of 1.89%. Throughout 2022 YBS charged just the base rate with no margin. Mr S said that in January 2023, YBS increased the margin over the base rate to 1.89%.

YBS said the correct margin above base rate was 0.89%

Mr S complains:

- YBS is applying an incorrect margin of 1.89%.
- YBS did not tell him that the margin would be 0.89% when he chose the product. If it had given him the correct information, based on his knowledge of swap rates, he would have chosen the alternative product of a five-year fixed rate of 2.35%.

YBS said that Mr S's mortgage had not correctly tracked the base rate by a margin of 0.89%. It said it would put him back in the position he would have been in had the error not occurred. It offered £330 to cover any costs Mr S had incurred and for any distress or inconvenience.

YBS said it gave Mr S the correct information about the margin that would apply when it spoke to him.

The investigator said that YBS had completed its remediation of the mortgage. It had credited the interest that Mr S overpaid and removed the margin until 31 July 2024. He thought that and its offer of £330 was fair. The investigator said that YBS had explained the interest rate and margin correctly when it spoke to Mr S before the mortgage was taken out and he had made an informed decision to go ahead with the product.

Mr S did not accept what the investigator said. He made a number of points, including:

- The mortgage illustration clearly states the interest rate would be the same as the base rate. It said:

*This is a capital repayment mortgage on a variable rate which is the same as Bank of England's Base Rate until 31 July 2024. The variable rate will not go below a floor.*

He believed the information given during the phone call was that the rate would be “base plus 0.89%” was confirmation of the floor, which was 1.89%.

- YBS charged him 1.89% until the end of 2022. This shows that the product was always meant to be base rate with a floor of 1.89%.

### **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.

The purpose of the mortgage offer is for borrowers to receive a clear document to check the features and price of the mortgage before they enter into it. Mr S's offer does not say there would be a margin of 0.89% above the base rate. I agree with Mr S's interpretation that the interest rate would be the base rate, but subject to a minimum rate of 1.89%.

In these circumstances, I consider it would be very difficult for YBS not to honour what the offer said. Mr S accepted a clear written offer to charge him the base rate. There was opportunity for it to notice there was a mistake and rectify it before the mortgage was entered into. It did not do so. It would be unfair for it to retrospectively apply a rate different to that set out in the offer.

YBS has now agreed to remove the margin completely until 31 July 2024 and to refund the amount Mr S overpaid. My understanding is that the refund of any margin applied since the mortgage's inception. If YBS has not done that it should do so.

I have listened to the phone call that Mr S had with YBS. YBS said “*the interest rate I am recommending is 1.89%, a two year tracker at 0.89% above the Bank of England base rate*”. Mr S indicated that he understood that. So I am not persuaded that if he knew there was margin of 0.89% he would have chosen a different interest rate product.

In any event, Mr S said he entered into the agreement based on the understanding that the interest rate would be the base rate until 31 July 2024 with a floor of 1.89%. The mortgage has been reworked to operate in the way he expected. I consider in the circumstances that is a fair and reasonable way to put things right.

Mr S has been caused worry and confusion by the way that YBS has applied the interest rate to his mortgage over a number of months. He's also had the inconvenience of trying to resolve this matter. But in the circumstances, I consider YBS's offer of £330 to reflect any costs and distress and inconvenience is fair.

### **My final decision**

Yorkshire Building Society has reworked Mr S's mortgage so that he has paid the Bank of England base rate from inception until 31 July 2024, subject to a floor of 1.89%, refunded any overpayments and offered £330 for any distress and inconvenience. In all the circumstances I consider that is a fair way to resolve this complaint.

My final decision is that Yorkshire Building Society should pay Mr S £330 in addition to the steps it has already taken to rework the account.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 18 March 2024.

Ken Rose  
**Ombudsman**