

The complaint

This complaint has been brought on behalf of A, a limited company, by its director. I'll refer to the director as Ms F. Ms F says Santander UK Plc made errors when calculating capital repayments for A's business loan. She asks for compensation and a better interest arrangement.

What happened

In late 2022 Santander wrote to A informing it that its monthly mortgage payments had increased. Ms F says the only explanation for the amount of the increase is that Santander had miscalculated their payments over the last ten years and is trying to recoup the underpayments. She says this has caused difficulties managing A's business and it will have paid more interest over the life of the loan.

Santander said the loan repayments were reviewed each year since the loan went onto the variable rate in 2016. The only exception was in 2020 when A took capital repayment breaks. Santander says the increase in the monthly payments in late 2022 was due to increases in the interest rate. Santander offered £200 compensation for not providing a clear explanation in a timely manner.

I sent a provisional decision to the parties explaining why I thought Santander's offer of £200 was fair and reasonable in the circumstances. Neither party responded.

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.

A signed a loan agreement with Santander in July 2013. Although the loan had a 10-year term, repayments were calculated over a longer period. This meant there would be a balance to repay in July 2023 (referred to as a bullet repayment).

A repayment schedule was attached to the loan agreement which set out the monthly payments of interest and capital over the term of the loan based on interest rates in 2013. The schedule says the actual payments will vary. The schedule shows a total of 120 payments with a balance of £195,000 remaining at the end of the 10-year term (the bullet repayment).

Santander notified A that its monthly payments had increased in late 2022. The loan was on a variable rate and interest rates had increased. However, the amount of capital being repaid each month increased as well as the amount of interest. In addition, the bullet repayment due in July 2023 had increased to £210,000.

Ms F says the only explanation is that Santander made an error with the calculation of capital repayments over the loan term, meaning A had been making underpayments. I don't think that's necessarily the case. I think there are several reasons why the capital repayments haven't followed the repayment schedule attached to the 2013 loan agreement.

First, A entered into a new agreement with Santander in 2016. This said payments would be based on an amortisation profile of 228 months from 2016. The expected bullet repayment in July 2023 was £198,000. The bullet repayment remained at £198,000 in 2019, which suggests the capital repayment calculations were in line with the agreement between 2016 and 2019.

Second, A took capital repayment breaks in 2020 and 2021 totalling about 13 months. Absent the agreed break, A would have made capital repayments of about £22,000. This amount did still have to be repaid.

Although the loan term ended in July 2023, the amortisation period (as agreed in 2016) was longer. This meant that while monthly capital repayments increased (to make up for the repayments missed in 2020 and 2021) this increase was less than it would have been if the capital was being repaid over the loan term. This also meant that the bullet repayment due in July 2023 increased.

Ms F says they weren't told the "target" amount for the bullet repayment had changed to £210,000. Santander sent them notice of this in late 2021. I'm sorry if Ms F didn't receive this. But I'm not sure it would have made a difference if she had. In order to reduce the bullet repayment to £198,000 (as set out in the 2016 loan agreement), A would have had to make higher monthly payments. I don't know if A would have been able and willing to do this.

Third, interest rates increased between late 2021 and late 2022. Santander reviewed A's loan repayments in late 2021 and increased the monthly payments to £2,400. A's monthly payments remained at £2,400 until late 2022. However, there were interest rate increases during 2022. That meant the amount of capital being repaid each month decreased (more of the monthly payment was applied to pay interest). When repayments were reviewed in late 2022 the amount of the capital being repaid increased again as well as the amount of interest.

A's monthly loan payments increased at the end of 2022, from about £2,400 to £3,400. I can understand this would cause difficulties managing a business, especially if A's other costs were increasing too. I can also understand that Ms F wanted to be sure the payments were correct and that A hadn't been charged too much interest.

I can't confirm that the monthly repayments calculated by Santander were correct – that isn't a service we offer. And there might have been other factors that affected the payments that I'm not aware of. For instance, there could have been an agreement between Santander and A about how A would make up for the capital repayments missed during the breaks in 2020 and 2021.

Based on the available information and evidence, I think the increases in the monthly payments can be explained. I haven't seen evidence of an error by Santander.

Santander offered £200 compensation for not explaining clearly what had caused the increase in the loan repayments from 2022. I need to take into account here that A is a limited company. As such, it doesn't feel worry. I can't require Santander to pay compensation to a third party (such as Ms F) or for a third party's upset and worry. But I can require Santander to pay compensation for inconvenience caused to A's officers. I think £200 is fair and reasonable for any inconvenience caused by Santander not explaining what had happened when Ms F first contacted it.

My final decision

My decision is that Santander UK Plc should pay £200 to A, as it offered to do (unless it has

already made the payment).

Under the rules of the Financial Ombudsman Service, I'm required to ask A to accept or reject my decision before 16 April 2024.

Ruth Stevenson
Ombudsman