

The complaint

Mr P complains that Lloyds Bank PLC (“Lloyds”) recalculated the repayments on his fixed rate mortgage.

What happened

In August 2022 Mr P got a repayment mortgage with Lloyds. The mortgage had a fixed rate product that applied until May 2032. After the initial monthly payment, the contractual monthly payment (“CMP”) was £493.34 until May 2032.

In August 2023, Lloyds sent Mr P his annual mortgage statement. At the top of that statement, it said in a coloured box of text that it had checked Mr P’s mortgage and that from September 2023, his new monthly payment would be £464.14. Mr P said he didn’t receive that letter.

In December 2023 Mr P complained to Lloyds. He said:

- he wasn’t happy with his reduced monthly mortgage payments following an annual review of his account.
- Lloyds had reduced his monthly payments without his permission.
- he wasn’t happy that the overpayments he’d been making contributed towards the 10% allowance he can overpay each calendar year.
- he feels Lloyds was trying to make more money from its customers.
- he was on a fixed monthly payment, so he did not understand why it was changed.

Mr P raised a further complaint in January 2024 after Lloyds issued a final response in connection with his first complaint. He said:

- he felt he had been misled when he took out his mortgage as he wasn’t made aware that he would need to complete a mortgage review to change his mortgage term.
- he feels the bank should waive the Early Repayment Charge (“ERC”) so he could redeem the mortgage without a financial obstacle.

Lloyds said it hadn’t done anything wrong. It said it had reviewed all its mortgages after regulatory changes were made. It decided to change Mr P’s CMP to ensure that his mortgage would be repaid at the end of its term. It said the terms and conditions of the mortgage allowed it to do that and that although the interest rate on Mr P’s mortgage was fixed until May 2023 that didn’t mean his CMP was fixed. It said it hadn’t misled him about the terms of the mortgage.

To resolve the complaint, Lloyds said it would put his CMP back to £493.34 from February 2024 until the next recalculation date. However, it said that if he wanted his CMP to be

£493.34 after that, he would need to speak to a mortgage adviser to reduce the term of his mortgage. It said it wouldn't waive the ERC.

Lloyds didn't think Mr P had been misled when he got the mortgage either. It provided the Financial Ombudsman Service with a copy of its "Reasons for Recommendations" document (completed in April 2022) around the time it offered Mr P his mortgage. That doesn't mention that Mr P was looking to reduce his term. Instead it says that Mr P was looking to overpay within the overpayment limits in order to not incur an ERC. Lloyds said that Mr P told its complaint handler that he didn't discuss a term reduction with it either.

Mr P wasn't satisfied by Lloyds' position and complained to the Financial Ombudsman Service.

Our investigator looked into what had happened. He said Lloyds had provided a screenshot that showed it sent Mr P a letter on 31 May 2023 that said it would start doing an extra check on his mortgage each year to make sure his monthly payments were on track. It also provided a copy of the August 2023 statement. So he was satisfied those letters were sent, even if Mr P said he didn't receive them. He could also see that Lloyds wrote to Mr P again in January 2024. In that letter it confirmed that Mr P's CMP had been put back to £493.34 on a temporary basis and that no overpayment charges had been applied to his account.

Our investigator said that having looked at the terms and conditions of Mr P's mortgage he was satisfied that Lloyds was entitled to change Mr P's CMP. He said that Lloyds has confirmed that if overpayments were made Mr P would need to speak to a mortgage adviser once a year to carry out a review of his mortgage term – not every month as Mr P thought. He thought that was reasonable.

As our investigator didn't think Lloyds had made a mistake in the way that it had handled this matter, he didn't think that it would be fair reasonable to say that it should compensate Mr P.

Mr P didn't agree with our investigator. He asked for his complaint to be considered by an ombudsman. So it has been passed on to me for a final decision. Mr P made a number of points I've considered below. In short, it's clear that Mr P wanted to be able to overpay his mortgage each month to reduce the interest he pays overall. He doesn't think Lloyds were allowed/should be allowed to make it more difficult for him to do that.

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.

Having done so, I've reached the same conclusion as our investigator. I'll explain why.

I'll begin by saying that I'm in no doubt about Mr P's strength of feeling about this complaint. He feels that Lloyds hasn't been truthful when it said that it sent him letters about this matter, and he has questioned Lloyds motives for acting in the way that it did. He doesn't accept that the changes deliver good outcomes for him (Lloyds' stated reason for making the changes) and thinks Lloyds has breached the consumer duty (a regulatory requirement that came into force on 31 July 2023).

I'll begin by considering the paperwork Mr P was sent about his mortgage when he agreed to it.

The terms and conditions of Mr P's mortgage

Mr P's mortgage offer said the following about overpayments:

"Overpayments

You are able to make overpayments to this mortgage at any time subject to any early repayment charges detailed in the "Early repayment" section above.

Sometimes you may be offered the opportunity to make lump sum or regular overpayments without having to pay an early repayment charge. Details of any current offers, which can change from time to time, can be found in the 'Information about your mortgage' booklet issued with mortgage offers."

The "Information about your mortgage" booklet said:

"Currently, as a concession, in each calendar year you can make regular or lump-sum overpayments of up to 10% of the amount owed at 1 January, without having to pay an early repayment charge. (This is for any product where an early repayment charge applies.)

If the total amount you overpay during the year exceeds 10%, we'll only charge you an early repayment charge on the proportion you overpay above 10%.

...

If you decide you want to make regular or lump-sum overpayments, it's always a good idea to contact us and check if the policy has changed. We'll give at least three months' notice before withdrawing or reducing the concession.

...

What are regular overpayments and how do I make them?

You can make regular overpayments by increasing the amount you pay each month.

...

Will overpayments reduce my term?

No. Overpayments will not reduce your mortgage term. Whenever we recalculate your monthly payment, we will use the reduced balance to work out the new payment over your existing term.

If you want to use regular overpayments to repay your mortgage sooner, but don't want to formally change the term of your mortgage agreement, remember:

- Any recalculation of your monthly payment will include the overpayments. This means that if you only pay the new monthly payment, your loan will be repaid over your existing mortgage term.

If you would like to permanently reduce the remaining mortgage term, you will need to speak to a qualified Mortgage Adviser, who will discuss your current and future plans with you."

The mortgage terms and conditions document said:

"When we can change your monthly payments

Sometimes, we may need to adjust your monthly payment amounts so they can continue to

be at the level needed:

- to pay off everything you owe other than arrears by the end of your mortgage term, if you have a repayment mortgage

...

We may do this if, for example:

...

- you make an overpayment, or you underpay”

Payment recalculation

The “information about your mortgage” booklet said that Mr P could make annual overpayments of up to 10% of the mortgage balance as a concession – but also that it may recalculate monthly payments based on the current balance and the remaining mortgage term. So if overpayments had been made, the monthly payment would go down. That is supported by the mortgage conditions, which say that Halifax could recalculate the mortgage payment each year.

I can understand why Mr P was surprised when he realised that Lloyds had recalculated and reduce his monthly payments given that he thought the CMP was fixed for the ten years he had fixed his interest rate for. I expect that was a particularly unwelcome surprise as he says he didn’t receive any letters/a statement to make that clear in 2023. However, I’m afraid I think the paperwork Mr P was sent in connection with his mortgage was clear. So I don’t think it’s fair to say that Mr P was misled when he got the mortgage.

Having considered the information Lloyds has provided, I think it’s more likely than not that the letters/statements referred to above were sent as Lloyds said they were. Mr P has suggested that Lloyds should have spoken to him about this matter as it had his contact details. He thinks such a change should have required his explicit consent. I appreciate his point of view, but I’m afraid it wasn’t required to ask for his consent. I think Lloyds could reasonably expect Mr P to get the letters/statements it sent him.

So I’m satisfied that Lloyds was entitled under the terms and conditions of the mortgage to recalculate Mr P’s monthly payment in the way it did. Lloyds has said it introduced the recalculation to comply with the consumer duty, and in particular to avoid foreseeable harm to consumers. The recalculation will mean that Mr P is not paying more than he needs to repay the mortgage for his chosen mortgage term. I consider that is reasonable.

There is the potential for harm to consumers whose payments are higher than they need to be.

I note that the recalculation is how Lloyds has chosen to interpret the consumer duty rules, that came into force on 31 July 2023. But there is also a requirement under the duty to enable and support customers to meet their financial objectives.

Mr P has said that the changes didn’t support him to meet his financial objectives. It seems that Mr P’s objective was to pay the amount that was agreed when he took out the mortgage. It also seems he wanted to make overpayments where he could, to minimise the interest he paid on his mortgage.

I understand that. However, I consider Mr P’s objectives have to be balanced against the

terms and conditions of the mortgage account. They allow Lloyds to recalculate payments in this way.

Conclusion

In the circumstances, I consider that Lloyds' decision to put Mr P's CMP back to £493.34 from February 2024 until the next recalculation date was a fair way to settle this complaint. I think that balanced Lloyds' rights under the mortgage and its legitimate aim to protect consumers, against Mr P's objectives and gave Mr P time to consider his options. I think the information Lloyds sent Mr P when the mortgage was sold set out its position in relation to overpayments. I don't think Lloyds was required to say more about overpayments at the point of sale.

Lloyds has confirmed that in order to carry on making the overpayments he wants Mr P would need to speak to a mortgage adviser once a year to carry out a review of his mortgage term. I appreciate he doesn't want to do that but making overpayments will have an impact on the term of his mortgage, so I don't think that's unreasonable.

Overall I consider Lloyds' actions to resolve this complaint to be fair and reasonable.

My final decision

My final decision is that Lloyds Bank PLC doesn't need to do anything more to resolve this complaint.

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

Laura Forster
Ombudsman