

## **The complaint**

This complaint is about a mortgage Mr and Ms M hold with The Royal Bank of Scotland Plc (RBS). Mr and Ms M complain that RBS wrongly advised them to keep the mortgage on an offset basis long after it would have been to their advantage to switch to a “core” mortgage with a fixed interest rate. They say that this has prevented them from achieving their priority of reducing the mortgage balance as quickly as possible.

## **What happened**

By way of a provisional decision dated 12 June 2024, I set out my provisional conclusions on this complaint. The following is an extract from the provisional decision.

“The above summary is in my own words. The basic background to this complaint is well known to both parties so I won’t repeat the details here. Instead I’ll focus on giving the reasons for my decision. If I don’t mention something, it won’t be because I’ve ignored it. It’ll be because I didn’t think it was material to the outcome of the complaint.

### **What I’ve provisionally decided – and why**

I’ll start with some general observations. We’re not the regulator of financial businesses, and we don’t “police” their internal processes or how they operate generally. That’s the job of the Financial Conduct Authority (FCA). We deal with individual disputes between businesses and their customers. In doing that, we work within the rules of the ombudsman service and the remit those rules give us. We don’t replicate the work of the courts.

We’re impartial, and we don’t take either side’s instructions on how we investigate a complaint. We conduct our investigations and reach our conclusions without interference from anyone else.

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, it seems to me that this complaint is much simpler than it’s been made to look. The underlying premise of Mr and Ms M’s complaint is that between 2010 and 2021, when the mortgage was on an offset basis, they say the capital balance reduced by an average of around £4,500 per year. Since 2021, when they changed from the offset arrangement to a fixed rate core mortgage (on RBS’ advice) the rate at which the balance is reducing each year has accelerated markedly.

Mr and Ms M have attributed this apparent sudden acceleration in the rate at which their balance is falling to the change from an offset mortgage to a fixed rate core mortgage. They deduce from this that they should have been advised by their relationship manager to do this much earlier than 2021.

I appreciate their position, but there are logic flaws in the reliance on the average yearly capital reduction of around £4,500. To see the real picture requires looking at the actual year-on-year reductions on the outstanding balance, not the average over eleven years.

The reason for that is that the reduction in the balance of a capital repayment mortgage isn't linear. Due to the way such mortgages work, it's normal for the balance to reduce by a relatively small amount in the first year, and then for the rate of reduction to grow incrementally year by year. In the later years of the mortgage, the capital balance reduces quite dramatically. To put this into context, the starting balance of a typical 25-year mortgage will, assuming all payments are made in full and on time, take until somewhere between 18 or 19 years to reduce by half, with the residual half being repaid in the remaining 6 or 7 years.

Another problem with Mr and Ms M's reliance on the average annual reduction between 2010 and 2021 is that it overlooks the fact that they took further borrowing in late 2019.

By reference to the mortgage statement from inception to date, it's possible to see the actual year-on-year reductions in Mr and Ms M's mortgage balance. The table below perfectly illustrates the graduated acceleration in the rate of reduction between 2010 and 2019, the increase in balance caused by the 2019 further borrowing, and the resumption of accelerated reduction thereafter.

Year	Opening Balance	Closing Balance	Monetary Reduction	Reduction %	
09/10-09/11	£226,115.42	£219,423.29	-£6,692.13	-2.96	
09/11-09/12	£219,423.29	£212,549.33	-£6,873.96	-3.13	
09/12-09/13	£212,549.33	£205,619.43	-£6,929.90	-3.26	
09/13-09/14	£205,619.43	£198,563.81	-£7,055.62	-3.43	
09/14-09/15	£198,563.81	£191,074.38	-£7,489.43	-3.77	
09/15-09/16	£191,074.38	£183,278.20	-£7,796.18	-4.08	
09/16-09/17	£183,278.21	£175,097.95	-£8,180.26	-4.46	
09/17-09/18	£175,097.95	£166,620.13	-£8,477.82	-4.84	
09/18-09/19	£166,620.13	£157,860.88	-£8,759.25	-5.26	
09/19-09/20	£157,860.88	£188,747.62	£30,886.74	19.57	*
09/20-04/21	£188,747.62	£183,697.00	-£5,050.62	-2.68	**
04/21-04/22	£183,697.00	£170,327.44	£13,369.56	-7.28	
04/22-04/23	£170,327.44	£156,589.65	£13,737.79	-8.07	
04/23-04/24	£156,589.65	£142,756.38	£13,833.27	-8.83	

\*Balance increased due to additional borrowing in November 2019.

\*\*Not a full year.

What the above analysis reveals is that other than the two anomalous periods (one in which borrowing increased and another that was not for a full year) Mr and Ms M's mortgage balance has, from inception, reduced in exactly the manner I'd expect it to. There was no sudden and/or dramatically disproportionate increase in the rate of balance reduction following the switch from offset to fixed rate in 2021.

Taking out the anomalies, each year's *percentage* reduction is a little bit higher than its predecessor. As I've already alluded to, there's nothing there that's out of line with what I'd expect to see. Without wishing to be unkind, this shows that Mr and Ms M's

belief that they have been mis-advised about the suitability of the offset mortgage over the years was based on a mistaken premise.

There is one further point to make. Mr and Ms M specifically asked RBS for an analysis along the lines I've produced above. RBS said this wasn't possible. I can't think of any good reason why RBS would not have carried out the exercise I have done here. It had the statements and it knows, or certainly should know, about the non-linear way in which the balance of a capital repayment mortgage falls.

RBS could have saved itself and Mr and Ms M, and indeed this service, a great deal of unnecessary time and effort if it had done so, perhaps to the extent that Mr and Ms M might not have felt the need to complain at all. For that omission, I consider RBS should pay Mr and Ms M £200 compensation."

I gave the parties two weeks to make any further submissions before I finalised my decision. Both have replied already. RBS accepted my provisional decision without comment, whilst Mr and Mrs M disagreed. They provided calculations of their own which they believe show they've lost out to the tune of at least £35,000.

### **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 considered afresh everything that both parties have said and provided, I won't be departing from my provisional conclusions. But I will make a couple of observations on the calculations Mr and Mrs M included in their email of 14 June 2024.

The gist of their argument is that the starting balance for the first full financial year on the fixed rate (2021/22) was, at around £183,000, broadly similar to the starting balance in 2016/17 when still on the offset rate. They then point to the capital reduction in the next three years on the fixed rate (all well in excess of £13,500) are markedly greater than the decrease over 2016/17 of a little over £8,000. This, they say, is despite the starting balances in September 2016 and April 2021 respectively being roughly the same.

Mr and Mrs M say these figures speak for themselves. My own view, having studied them carefully is that they have flaws of their own way, just as the original premise did. I'll explain why I think that.

Firstly, Mr and Mrs M preface their argument with a reference to the capital reduction in the nine years up to the further advance that still relies on averages. For the reasons I've already explained, averages are meaningless here. Secondly, the further advance in 2019 wasn't for £30,000; it was over £34,000.

Another problem with their comparison between financial years 2016/17 and 2021/22 is that they aren't comparable just because their opening balances are similar. The first is year seven of twenty five, and the second is year twelve. It is *that*, and *not* the change from offset to fixed rate, that accounts for the greater balance reduction that occurred in 2021/22. Yes, the rate of capital reduction has increased, but it isn't, in my view, an increase that is dramatic or disproportionate, or that can be attributed to anything other than the natural self-accelerating effect that is seen on all repayment mortgages.

The biggest problem, however, is the inherent contradiction in and Mrs M's response to the provisional decision. On the one hand they say they are aware of and understand the non-linear rate at which the balance of a capital repayment mortgage falls. On the other

hand, they then undermine that somewhat by then seeking to argue that if the rate of reduction that occurred after they switched to fixed rate was applied to the years they were on offset, they'd have paid over £103,000 off the balance instead of £69,000.

But the simple reality is they just wouldn't ever have paid £103,000 off in the first nine years, regardless of what interest product the mortgage was on. The rate of reduction between years twelve to fourteen will always be greater than the rate between years one to eleven. To put the point another way, if Mr and Mrs M's mortgage had been on a fixed rate from 2010 to 2021 before switching to offset, I suspect they would in all likelihood currently be complaining that they should have been advised to switch from a fixed rate to offset earlier than they were.

Mr and Mrs M don't have to take RBS' word, or indeed mine, that nothing of note is amiss with the rate at which their balance has decreased since inception of the mortgage. If Mr and Mrs M have a real and substantive belief that they've been disadvantaged, it is open to them to arrange for the mortgage account to be audited by a suitably qualified and independent party.

The evidence of the audit could then be used as the basis for a new complaint to RBS, underpinned by the evidence of the finished audit. That would give the bank the opportunity to consider and respond to it.

Mr and Mrs M would have to meet the cost of the audit. But if errors or anomalies were found that were to their detriment, they could reasonably expect RBS to reimburse any reasonable cost of the audit as well as taking any corrective action the audit revealed to be necessary. And if that follow up complaint wasn't resolved to their satisfaction, Mr and Mrs M would still have the opportunity to refer it to us.

### **My final decision**

My final decision is that I uphold this complaint in part only. In full and final settlement, I direct The Royal Bank of Scotland Plc to pay Mr and Ms M £200.

My final decision concludes this service's consideration of this complaint, which means I'll not be engaging in any further consideration or discussion of the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Ms M to accept or reject my decision before 16 July 2024.

Jeff Parrington  
**Ombudsman**