

The complaint

Mr and Mrs C complain that Oakwood Homeloans Limited has overcharged them interest on their mortgage.

What happened

Mr and Mrs C took out an interest only mortgage in December 2004. The mortgage offer stated that the interest rate on the mortgage would be a discounted variable rate of 1.54% above the tracked LIBOR rate (which was 4.96% at the time) until 1 January 2007 – which resulted in a rate payable of 7.6%. After that date the mortgage would be on a variable rate for the remainder of the term, which was 2.64% above the tracked LIBOR rate.

The offer also said the interest rate would be reviewed no more frequently than on the 1st of every month and the last reset date and in any event on the first banking day of March, June, September and December each year.

In 2005 the mortgage was transferred to Oakwood. Mr and Mrs C redeemed the mortgage in January 2023.

Mr and Mrs C have raised several complaints to Oakwood over the years and have received several final response letters. Whilst Mr and Mrs C had asked the Financial Ombudsman Service to look into several issues, I sent a decision which determined we could only consider the following parts of their complaint:

- Oakwood overcharged Mr and Mrs C interest on their mortgage as it failed to apply the correct LIBOR rate as stated in the terms and conditions of the account from August 2019 onwards.
- Upon redemption, Oakwood failed to provide a breakdown of the redemption balance. Mr and Mrs C redeemed the mortgage before the end of the term. They want a rebate based on the total amount of credit or interest that would have fallen due for payment after the settlement date.

Our Investigator looked into the merits of Mr and Mrs C's complaint. She said that she was satisfied Mr and Mrs C hadn't been overcharged.

Mr and Mrs C disagreed. So the complaint's been passed back to me to consider the merits.

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.

I appreciate Mr and Mrs C feel very strongly about this complaint. I understand they still disagree with my decision about what our service has the power to consider. But I'm not revisiting that again as I've set out my determination on that issue already.

Mr and Mrs C have also sent this service very detailed submissions about their complaint, and what they think Oakwood has done wrong. I've considered everything they've sent us before issuing this decision, but the informal nature of our service means I won't be commenting on every individual point raised – rather I've focused on what I believe to be the crux of their concerns. I'm also conscious of the fact that a lot of Mr and Mrs C's unhappiness with this mortgage stems from events that I've said our service can't consider. So I won't be commenting on those in this decision.

The interest rate Oakwood charged

Mr and Mrs C have had their mortgage audited by a third-party company. They believe this audit report shows that Oakwood has overcharged them. Our service does not provide forensic audits of accounts. We are an informal service set up to resolve disputes quickly. We are not accountants. In order to decide whether Oakwood has overcharged Mr and Mrs C I have looked at whether Oakwood has applied the correct interest rate to Mr and Mrs C's account in line with the terms and conditions for the period in scope of this complaint. Having done so, I'm satisfied it has.

LIBOR is a fluctuating rate that changes every day. The interest rate charged on Mr and Mrs C's mortgage was reviewed every three months – in line with the terms and conditions. Having looked at the history of the interest rate charged on the account between August 2019 and November 2021, I'm satisfied Oakwood charged a fair rate that was in line with the terms and conditions. The rate tracked LIBOR as it should have done.

LIBOR was no longer published from 31 December 2021 onwards. The Financial Conduct Authority (FCA) advised businesses to take steps to remove reliance on LIBOR from both their new and existing contracts. The FCA set out some alternative rates that they expected mortgage lenders to use as reference rates from that point, and one of those was the Bank of England base rate (base rate). So in changing the reference rate on Mr and Mrs C's mortgage contract from LIBOR to base rate, I'm satisfied Oakwood followed the regulator's guidance. Having considered all the circumstances, I'm satisfied that was fair and reasonable.

The redemption balance

Mr and Mrs C requested a redemption statement from Oakwood, and this was provided on 31 January 2023. That statement set out the starting balance as it was at the beginning of the financial year, the interest that had accrued since then, and the interest payments that Mr and Mrs C had paid. It also set out the redemption fee that applied, and the daily interest amount. Having considered the statement, I'm satisfied it clearly set out how much Mr and Mrs C needed to pay to redeem their mortgage on 31 January, and how that amount had been reached.

Mr and Mrs C have said that as they redeemed the mortgage early before the end of its intended term, they should be due a refund of some funds. But I don't agree. Mr and Mrs C had an interest only mortgage which meant in theory the capital balance would remain unchanged (unless fees and charges were added, or the full monthly payment wasn't made each month, or overpayments had been made), and Mr and Mrs C would just pay the interest that accrued on the mortgage each month. So if all payments were made on time, and no additional balances were added to or deducted from the account, the capital balance would be the same at the start and the end of the mortgage, and the interest due would have been paid each month for as long as the mortgage was in force.

Mr and Mrs C's capital balance had increased between the inception of the mortgage and the point of redemption because there had been periods historically when the full monthly

payments had not been paid on time. But that doesn't mean they've overpaid because they've redeemed their mortgage before the end of the term. From looking at all the evidence, I'm not persuaded Mr and Mrs C are due any refunds because they've redeemed the mortgage early.

Having carefully considered the complaint points I have the power to look at, whilst I know this will come as a disappointment to Mr and Mrs C, I'm satisfied Oakwood has treated them fairly and reasonably.

My final decision

Considering everything, for the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C and Mr C to accept or reject my decision before 10 September 2024.

Kathryn Billings
Ombudsman