DRN-4953667

The complaint

Ms P complains about the overcharging of interest on her mortgage she holds with Yorkshire Building Society trading as Chelsea Building Society.

Ms P has complained that Chelsea has:

- Charged higher rates of interest than was agreed when she took the mortgage out
- Charged fees which have been applied to the mortgage incorrectly

What happened

Ms P took this mortgage out in 2007 on a rate of interest at 6.09% which was fixed until March 2009. Once this rate had ended, the mortgage reverted to Chelsea's standard variable rate (SVR) which was 5.79% at the time.

The mortgage remained on the SVR until 2012 when Ms P applied to take out another fixed rate charged at 5.09% which was fixed until 31 March 2014. Since March 2014, the mortgage has been charged at the SVR.

Ms P arranged for another company to carry out a review of her mortgage and she was told that she had been charged too much interest on her mortgage. Ms P was expecting a refund of around £40,000.

She complained to Chelsea who told her that they were satisfied that interest charged to her mortgage had been done so in line with the terms and conditions.

Ms P wasn't happy with this so she brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators. The investigator explained what we were able to consider in relation to the complaint and explained to Ms P that we would be able to review any interest charged on the mortgage since May 2015. That was because Ms P complained to Chelsea in May 2021 about the interest rate on her mortgage – at the same time she received the calculations from the external company letting her know she had been charged too much.

The investigator reviewed the complaint but he didn't uphold it. He said that he was satisfied that Chelsea managed the SVR fairly and that Ms P hadn't been overcharged on the mortgage. He also said that there were only two unpaid direct debit charges since May 2015 and a letting fee cost of £40 which had been applied in April 2021. He didn't think these charges were unreasonable.

Ms P disagreed with the investigator. She said she was told in 2021 that she had a case against Chelsea and she was expecting a large refund. She said she had asked Chelsea for information about how they set their rates and as she didn't get all the information from them, she thought she would get her money back.

As Ms P disagreed with the investigator, she asked for the complaint to be reviewed by an ombudsman, so it's been passed to me to decide.

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 everything very carefully, I agree with the outcome that the investigator has reached. I'll explain why.

Ms P took this mortgage out in 2007 on a rate of 6.09% - fixed until 1 March 2009. The mortgage then reverted to the SVR which at the time was 5.79% and remained on the SVR until 2012 when Ms P arranged another fixed interest rate of 5.09%. This rate was fixed until March 2014 and the mortgage has been on the SVR since.

I can only consider Ms P's complaint about the interest rate since May 2015 onwards. However, in order to decide whether Chelsea acted fairly during that period, I have taken account of all the wider circumstances that are relevant to Ms P's complaint.

Ms P complains that Chelsea has charged too much interest on her mortgage, because the rate they applied was excessive and didn't reflect the level of the Bank of England base rate.

Ms P's mortgage has been subject to Chelsea's SVR since 2014 (and prior to this from 2009 until 2012). The SVR isn't the same as the Bank of England base rate, and Chelsea didn't indicate that it would be. The mortgage conditions set out Chelsea's entitlement to change their SVR and the circumstances in which they might do so. Those included to reflect, in a proportionate manner, changes in the Bank of England base rate, to maintain their competitiveness, and to reflect changes in their operating costs.

Since 2007, when Ms P took out her mortgage, Chelsea's SVR has broadly reduced and increased at around the times when Bank of England base rate reduced and increased. In the period prior to 2008, the difference between the base rate and Chelsea's SVR remained constant. In the period between February 2008 and March 2009, the difference between the SVR and base rate increased from 1.99% to 5.29%. This period was a time of significant change in the wider market as a result of the financial crisis. This impacted on the funding costs of businesses and was reflected in changes to a number of lenders' interest rates charged across the market at that time.

Between March 2009 and December 2016, Bank of England base rate remained at 0.5%. Chelsea reduced their SVR on a number of occasions, reducing the difference between their SVR and Bank of England base rate. From that point on, changes to Chelsea's SVR largely mirrored the changes to Bank of England base rate.

In 2010, Chelsea merged with Yorkshire Building Society, and they now operate as a trading name. Yorkshire has provided this Service with information explaining why Chelsea's SVR has varied as it has, over time. There is limited evidence available going back that far, however the evidence that is available indicates that their costs did increase at the relevant times.

I'm satisfied that the SVR had been varied in line with the terms and conditions of the mortgage, for reasons those terms allowed. It's possible that some of the terms might be considered unfair under relevant legislation, but what I ultimately need to decide is whether the changes made to the SVR over time have resulted in any unfairness to Ms P. In all the circumstances, I don't think they have. I don't find that Chelsea has managed their SVR unfairly, or that Ms P has been overcharged interest as a result of the SVR having been set at the level it was.

I appreciate that Ms P has suffered from some financial difficulties in the past and Chelsea offered different interest rates to their existing customers. These rates would have been available subject to any qualifying criteria. But I understand that Ms P may have found it difficult to obtain a new rate with Chelsea at the time of difficulty but once she was through that period, had she of asked for a new rate, I can't see that she wouldn't have been eligible for one. She was also on the SVR, so she could have moved to a different lender if she wanted to and Chelsea didn't have any barriers or obstacles in place for her to do this.

I understand that Ms P has obtained a report from another company which highlighted that interest had been applied unfairly and Ms P was expecting a refund of around £40,000. But having reviewed everything, I am satisfied that Chelsea managed their SVR fairly during the period in question.

Charges applied to the mortgage since May 2015

I agree with the investigator in that the only charges I can see from May 2015 are two unpaid direct debit fees charged at £12 in 2018 and a property letting fee of £40 in April 2021. I don't find these fees to be unfair or unreasonable. When a direct debit is returned, this causes more administration work for lenders which wouldn't have been required had the mortgage payments not been returned as unpaid. And the letting fee is something that most lenders will charge when someone applies to let their property out.

Ms P did apply to let her property out in April 2021 and Chelsea waived the 1% loading charge but charged the £40 letting fee which I don't think is unfair.

Since Ms P has raised this complaint, Chelsea have applied a 1.5% loading charge as they believe the property is being rented out without their consent. Ms P can raise this as a new complaint with Chelsea and then bring that complaint to us if she is unhappy with their response.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms P to accept or reject my decision before 4 December 2024.

Maria Drury
Ombudsman