

The complaint

Mr T and Mrs Y complain that Accord Mortgages Limited isn't calculating the capital repayment part of their offset mortgage correctly. They ask that it calculates their capital repayments correctly, and provides tools and training so that its staff can understand and provide models and repayment schedules to customers. Mr T has dealt with the complaint.

What happened

Mr T and Mrs Y have a mortgage with Accord. Their product was due to expire in late 2023 and they contacted Accord about switching to an offset basis.

Mr T and Mrs Y have savings equal to the mortgage balance. Their mortgage is fully offset and they don't pay any interest. Accord requires them to make monthly capital repayments of the same amount throughout the remaining term. Mr T says this isn't right. He says their capital repayments should be lower in the earlier part of the mortgage, as would be the case with a standard repayment mortgage.

Mr T says the way Accord operates their offset mortgage isn't consistent with its product literature or the information in the mortgage statement.

Our investigator said there's nothing to suggest Accord hasn't calculated payments correctly.

Mr T and Mrs Y didn't agree and asked that an ombudsman re-consider the matter.

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.

We provide an informal dispute resolution service. This service isn't a regulator, and we don't have the powers of a regulator. I can't interfere with Accord's commercial decision about the mortgages it offers. I don't have the power to require Accord to change the training and tools it provides to its staff, make wholesale changes to product literature or verify calculations for all of its offset mortgages.

What I can do is consider whether Accord made errors when dealing with Mr T and Mrs Y or treated them unfairly. I'm required to explain why I reach my decision. But I don't have to respond to each point raised by the parties. I should also explain that where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

Mr T and Mrs Y's mortgage is on a repayment basis. Accord has to calculate their monthly mortgage payments to ensure the mortgage is repaid by the end of the term. Mr T and Mrs Y switched to an offset basis in late 2023. In brief, this means money in their offset savings accounts is offset against the mortgage balance to reduce the amount of interest applied each month. Customers with an offset mortgage can still choose to make payments that

would cover the interest – which means they make regular overpayments. Or they can choose to use the offset facility to make lower monthly payments.

Mr T and Mrs Y chose to make lower monthly payments. Their mortgage is fully offset, so no interest is applied to their account. They make payments of capital only.

Accord calculates Mr T and Mrs Y's monthly capital repayments by dividing the mortgage balance by the number of remaining months. The amount of the capital repaid each month is the same throughout the term. This is different from a standard repayment mortgage. For a standard repayment mortgage the payments would also be the same each month (assuming there's no change to the interest rate). However, the payment would be made up of a capital repayment and the interest accrued that month. The amount of interest would reduce over the term as the balance reduces, meaning the amount of capital repaid each month would increase.

Mr T disagrees with the way Accord calculates their capital repayments. He says it's not consistent with the product literature and the following paragraph in their mortgage statement:

Your account is currently operating under Option 1 - Reduced current payment. This means that you are using your savings to benefit from lower monthly payments immediately and your mortgage balance and term will not reduce any quicker than if you were on a traditional non-Offset mortgage.

Mr T says paying the same amount each month is inconsistent with this. He says the balance will reduce quicker than for a standard repayment mortgage as they are making higher initial capital repayments.

I think Accord's statement that the term of Mr T and Mrs Y's mortgage will not reduce quicker is correct. The capital will be repaid over the mortgage term, as would be the case for a standard repayment mortgage. It's true that the pattern of capital repayments is different from a standard repayment mortgage, and the balance will reduce more quickly in the earlier part of the term. Ultimately though the balance is repaid over the same term.

It seems that Mr T and Mrs Y didn't expect this. So I have to consider whether Accord misled them or failed to give them clear information about how the offset mortgage would work.

Accord issued a product offer in November 2023. The product offer set out the projected monthly payment. This didn't take any offsetting into account. That's because Mr T and Mrs Y can change the amount of savings that are offset from time to time. Accord told Mr T this before they took out the mortgage.

And, before Mr T and Mrs Y took out the mortgage, Accord told Mr T what their monthly capital repayment would be and how capital repayments would be calculated if the mortgage was (as they intended) fully offset.

I've listened carefully to Mr T's calls with Accord's mortgage adviser when they discussed the offset product.

Mr T and Mrs Y had a mortgage balance of about £100,000. Their mortgage product was about to expire and they wanted to take out a new product. Mr T said they could manage monthly payments of up to £1,000. Mr T said they had savings that could fully offset the mortgage balance. They wanted to make the lowest possible payments. Mr T didn't want to reduce the term. There was a discussion about a switch to interest only and whether Mr T and Mrs Y had a suitable repayment vehicle.

Mr T and Mrs Y's mortgage stayed on a repayment basis. The mortgage adviser told Mr T that the gross monthly payment (of capital and interest) would be about £725 and this would be set out in the product offer. She said the net payment (of capital only) if they were fully offset would be about £410. Mr T said he didn't understand this as he'd calculated the monthly payments would comprise about £500 of interest, with the remainder being capital. There was a long discussion about this. The mortgage adviser couldn't explain why the capital payments were £410 and said she'd call Mr T back.

The mortgage adviser called Mr T back to explain why the monthly capital repayment was £410. She told Mr T that the mortgage balance is divided by the number of remaining months, to make sure the capital is repaid by the end of the term. This is because payments were of capital only. Mr T said he understood that meant capital repayments were not on a sliding scale due to being fully offset. He did calculations while on the call to check the maths worked. And he said while payments were a bit more than they'd expected it didn't much matter.

Mr T spoke to the mortgage adviser a couple more times and each time queried why capital repayments weren't on the same schedule as a regular mortgage. He said he couldn't find the answer in the small print. Mr T says their monthly mortgage payments should be calculated in the same way as a regular repayment mortgage (but with no interest applied due to the offset function). He says other lenders calculate offset mortgages that way.

Mr T says the mortgage ought to work differently. But I think Accord made it clear to Mr T how its offset mortgage works. Accord told Mr T on several occasions before they switched to an offset basis that their monthly capital repayments (on a fully offset basis) would be about £410 and that the monthly repayments were calculated by dividing the mortgage balance by the number of remaining months.

I don't think the way Accord calculates capital repayments for Mr T and Mrs Y's mortgage is unfair. The mortgage will be repaid by the end of the term, with payments spread evenly through the remaining term. I think the mortgage is consistent with the aims stated by Mr T in his discussions with the mortgage adviser. The payments are within their budget, interest is fully offset, they are making the lowest possible payments and the term hasn't been reduced.

It would only be fair me to require Accord to change the way it calculates Mr T and Mrs Y's monthly payments or verify its calculations if I thought it had made an error. I don't think that's the case. There's no suggestion that Mr T and Mrs Y made payments that were not applied to the mortgage account, or that interest hasn't been calculated correctly. Accord says the mortgage is working as it should. Mr T and Mrs Y weren't misled about the amount of their monthly capital repayments or how they'd be calculated – in fact Mr T had several detailed discussions about this. He was aware of the monthly payments and how they'd be calculated before deciding to go ahead with the switch to an offset basis.

Mr T and Mrs Y know they'll make the same capital repayment each month for the remaining term, with the balance reducing at the same rate as the payments. I don't think it's fair or necessary to require Accord to send a schedule to demonstrate this.

Accord did make errors. It called Mr T in early December 2023 to say he'd missed a payment when in fact the direct debit had been moved to later in the month. Mr T was told incorrectly that no payments are required when the mortgage is fully offset: Mr T knew this wasn't right but had to wait while the call handler checked this. Accord collected incorrect amounts by direct debit in late 2023 and early 2024. I think for the inconvenience these errors caused, Accord's payment of £100 is fair and reasonable.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T and Mrs Y to accept or reject my decision before 23 October 2024.

Ruth Stevenson
Ombudsman