DRN-5167851

The complaint

Mr and Mrs U complain that Bank of Ireland (UK) Plc (BOI) incorrectly advised them they'd be able to change their interest rate once they extended their mortgage term and changed the repayment type.

What happened

Mr and Mrs U have a mortgage with BOI. The mortgage was on a fixed rate which was ending on 31 October 2023. Mr U spoke with BOI on 20 September 2023 regarding his rate coming to an end, and an appointment was booked with a mortgage advisor.

On 13 October 2023, Mr U spoke with a BOI mortgage advisor. During this call, they discussed a new fixed rate and a potential term extension of the mortgage at the same time as changing the mortgage from interest only to repayment.

Mr and Mrs U proceeded to apply for a new two-year fixed rate, and another appointment was set for them to discuss the mortgage term extension and change of repayment type. The new fixed rate started on 1 November 2023.

In early November 2023, Mr and Mrs U applied to extend their mortgage term and change from interest only to repayment. It was at this point they say they found out that they couldn't select a new fixed rate again without paying an early repayment charge (ERC). Mr and Mrs U complained about this to BOI.

BOI responded to the complaint. It said it had told Mr and Mrs U that they could switch from interest only to repayment without penalty, but not that they could change their fixed rate. BOI did say it found an instance of Mr and Mrs U not receiving a call back, and it paid £75 compensation for this.

Mr and Mrs U didn't accept this and referred the complaint to our Service. One of our Investigators looked into the complaint. But she didn't think it should be upheld. She accepted there had been a misunderstanding on Mr U's part during the call of 13 October 2023. And she thought that BOI should've checked Mr U's understanding during this call. However, she wasn't persuaded that Mr U would've acted any differently even if he had fully understood that he couldn't change to a different fixed rate.

Mr and Mrs U didn't accept this. Mr U said he was told on three occasions "there was no penalty" and this was his main priority. Mr and Mrs U asked for the complaint to be considered by an Ombudsman. So, it's been passed to me to review and make a final decision.

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've listened carefully to the call between Mr U and BOI. It seems to me Mr U had two priorities during this call. He wished to ensure the mortgage didn't revert to the SVR once the existing fixed rate expired on 31 October 2023, and he wished to extend the term of the mortgage and switch it from an interest only basis, to repaying both the capital and interest.

BOI explained to Mr U that the switch from interest only to repayment and the term extension would be subject to underwriting assessment. And that this would likely take around six weeks. And if he were to do this before taking a new fixed rate, he'd move to the SVR until the application was assessed.

Mr U explained that he'd been trying to sort this out for weeks and did not want to revert to the SVR, which at the time was 8.04%.

BOI suggested he take a new fixed rate now and then complete the application to extend the mortgage and switch to repayment which would avoid Mr and Mrs U's mortgage reverting to the SVR. The advisor went on to explain this would limit Mr U to choosing from 2-year fixed rates only given the short amount of time left on the mortgage before it was extended.
Mr U said he'd previously been told he could take a fixed rate now and then switch from "*fixed to repayment*" without penalty. BOI confirmed this was correct.

I believe this is where the confusion started to arise. Mr U was considering a fixed rate and a repayment mortgage as different products. But they are not comparable. I'll briefly explain the difference.

The repayment type of a mortgage is how the mortgage will be repaid. There are two main types. An interest only mortgage which Mr and Mrs U currently had. This means that only interest is paid for the term of the mortgage and the amount of the mortgage doesn't reduce and is repayable when the mortgage ends. The other is a capital and interest mortgage, often referred to as "repayment" (as it was by both BOI and Mr U during this call). This is what Mr and Mrs U wanted to switch to, to ensure the mortgage would be repaid at the end of the extended term.

However, a mortgage can be on either a repayment or interest only basis, as well as a having a fixed rate. A fixed rate is the "product" that a mortgage is on. Typically, mortgage products are fixed or variable for a specific amount of time. Mr and Mrs U's mortgage was on a fixed rate which was expiring and would revert to the SVR unless they selected a new product. And Mr U clearly wanted a new fixed rate.

Ultimately, taking a fixed rate and switching from interest only to repayment were separate matters, even if they were being done at the same time.

Returning to the call, Mr U asks if he can take a fixed rate and then "*flip across*" to repayment. BOI confirmed that "*Whilst the rate is fixed and we can allow for the [extension and repayment change] you're not changing the rate, it's just the repayment type so no penalties would apply…and that's providing you are happy to fix for two years*".

Mr U followed this up by saying he was concerned about moving to the SVR and his priority was to avoid this. BOI told him that if the paperwork was returned on time, then the new fixed rate could start from 1 November 2023, and avoid him reverting to the SVR. Mr U was happy with this and agreed that he would complete the new fixed rate application online himself. There was further discussion about whether the term extension would be agreed or not, and BOI explained the decision could go either way.

Mr U then explained that he could wait until after April when his new job probation would've ended, but he was fearful rates may go up. BOI explained that this wouldn't be an issue given he would already have fixed his interest rate at this point.

In summary, I'm satisfied that the information Mr U was given was correct. Essentially, Mr U was asking if he could switch to repayment without penalty after taking out the fixed rate. He was told that he could, and this was correct.

However, as I've said, I can see there was some confusion on Mr U's part about how the fixed rate and the repayment type interacted with each other. I think that BOI should've checked Mr U's understanding on this point. And, had it done so, there may've been less confusion.

I've thought about this carefully. Like our Investigator, I'm not persuaded that Mr and Mrs U would've acted any differently had BOI checked their understanding further. I'll explain why.

Mr U has explained his priority, other than changing to a repayment basis and extending the term, was to avoid the mortgage reverting to the SVR. The only way of doing this was to take a new product (such as a fixed rate) to start from 1 November 2023. There would never have been a situation where Mr and Mrs U could've avoided moving to the SVR with a new fixed rate, and then taken another fixed rate a few months later without paying an ERC. This is because all of BOI's fixed rates had a period with an ERC, which meant that if the fixed rate was changed during this period, an ERC would become payable.

Now that rates are lower, I can see why Mr and Mrs U would like to take a new fixed rate. But this is using the benefit of hindsight. And I can't take this into account when making my decision. I'm not persuaded that Mr U would've waited had BOI provided clearer information and checked his understanding. I say this as Mr U said during the call he was concerned about interest rates increasing. There was no indication that he thought rates may come down. So, even if BOI had checked Mr U's understanding, and he had clearly understood he wouldn't be able to change the fixed rate when he changed the repayment type, I'm not persuaded he would've acted any differently.

In his response to our Investigator's view, Mr U has said:

During my interaction with BoI, I had one important thing to ascertain, that I could temporarily switch my rate, until I was able to extend the period and move to repayment, with no penalties to pay.

Mr U has said we shouldn't and can't say what he likely would've decided to do had he been given complete information. I agree that I can't know what Mr and Mrs U might've done. But, in situations such as this, I'm required to make my decision on the balance of probabilities. That is, what I think most likely would've happened.

As I've explained above, I believe Mr U's priority during the call was to ensure he could switch from interest only to repayment without penalty. And he was able to. I don't think Mr and Mrs U were looking to change the rate without penalty at a later stage. And I don't think they were ever told that they could. Whilst I've explained BOI could've been clearer and checked Mr U's understanding, I've seen nothing to suggest Mr and Mrs U thought rates would come down and wanted to wait for this. So, for these reasons, I'm not persuaded they would've acted any differently.

Mr and Mrs U haven't referred to the compensation paid for the missed call back that BOI addressed within its final response. But for completeness, I'm satisfied that the £75 its paid is fair and reasonable in the circumstances. I can see it would've been frustrating for Mr and Mrs U, but they were in regular contact at the time. And I can't see it delayed the process of switching to repayment.

My final decision

I don’t uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr and Mrs U to accept or reject my decision before 23 December 2024.

Rob Deadman
Ombudsman