

The complaint

Ms T complains that Clydesdale Bank Plc trading as Yorkshire Bank has not calculated the interest on her mortgage fairly.

What happened

Ms T has a mortgage with Yorkshire. She said that it gave her a formula that it uses to calculate interest – but it does not take into account that there is an additional day in a leap year, so she believed she has been overcharged.

The investigator did not think the complaint should be upheld.

Ms T did not accept what the investigator said. She made a number of points, including:

- Banks charge a daily rate of interest, which is to their advantage. They do not include an annual rate.
- Yorkshire can charge anything and use the excuse of what is in the terms and conditions.
- She doesn't believe most banks calculate interest this way.
- While Yorkshire does account for leap years in its daily interest calculations, it does not change the yearly calculations to reflect that.
- If Yorkshire adjusted the annual rate, it would benefit customers – even if it was only by a small amount.
- Yorkshire omits the 366 day interest adjustment, which would marginally lower the interest rate. It benefits by charging interest on the extra day in a leap year without adjusting the interest.
- She does not want preferential treatment – she wants Yorkshire to change how it calculates interest for everyone.
- Because the annual rate does not reflect leap years it is not compliant with the Mortgages and Home Finance Conduct of Business sourcebook (MCOB).

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.

To determine what I consider to be fair and reasonable in the individual circumstances of this complaint, I must take into account a number of things including the relevant law and rules. Having done so, I don't consider Clydesdale has treated Ms T unfairly.

When Ms T took out the mortgage she accepted the terms and conditions. They said, “*we will calculate interest on the balance outstanding at the end of each day. The interest will be added to your outstanding balance on the first day of the next calendar month.*” As far as I can see that is how the mortgage has operated.

Ms T entered into a contract with Yorkshire where she agreed that it would charge interest on the balance each day. So I can’t say it has acted unfairly or unreasonably in charging Ms T interest every day of the year. That will mean she is charged interest on 366 days in a leap year – that is what she accepted when she took out the mortgage.

Ms T has referred to MCOB 10.2A. That is a requirement for mortgage lenders to include an annual percentage rate (APR) calculation. But the purpose of the APR is for it to be a measure that facilitates a cost comparison between similar mortgages. It is for consumers to be able to compare the overall cost of the mortgage when they are deciding which mortgage to take. It makes no real difference to the operation of Ms T’s mortgage – and it is not the same as the interest rate that is actually applied to her mortgage. For example, when Ms T took a fixed rate of 2.14% in 2021 the APR stated on her offer was 4% - but she was only ever charged 2.14%

Ms T has not put forward any persuasive arguments or evidence that Yorkshire has not calculated her mortgage correctly. Looking at all of the evidence I have, I can’t see that Yorkshire has treated Ms T unfairly or unreasonably.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms T to accept or reject my decision before 7 January 2025.

Ken Rose
Ombudsman