DRN-5203786

The complaint

Mrs C and Mr G complain that Yorkshire Building Society trading as Chelsea Building Society didn't notify them that the fixed interest rate on their mortgage was coming to an end. Mrs C and Mr G complain that this meant they missed out on taking a new interest rate and incurred financial loss as a result.

What happened

Mrs C and Mr G have a mortgage with Chelsea. They took a two year fixed rate of 2.64% starting 1 July 2022 and ending on 30 June 2024. The mortgage offer said that from 1 July 2024 the mortgage would revert to Chelsea's standard variable rate (SVR). This in fact happened. By then the SVR was 8.24%, so Mrs C and Mr G's mortgage payments increased substantially.

Mrs C and Mr G realised that their interest rate had expired, and their payments had increased, when Chelsea collected the July 2024 payment by direct debit. They contacted Chelsea to complain. They say that it should have told them in advance so that they could take a new fixed rate in good time.

Chelsea didn't uphold their complaint. It said that the mortgage offer made clear when the interest rate would end. And it said it wrote to Mrs C and Mr G in April 2024 to remind them, and to remind them they could apply for a new rate if they wanted one.

Mrs C and Mr G said they didn't receive the April letter. They said that as a result, they had lost out compared to other customers who did receive letters. They said that Chelsea could have done more to ensure they received it, such as sending it by recorded delivery or by also reminding them by email or text message. If Chelsea chose not to do that, and rely on standard mail, it should take responsibility for when letters go astray.

Mrs C and Mr G also said that when they did receive a copy of the April letter following their complaint, they saw that Chelsea was offering a new fixed rate of 5.16% in April, but by July it would only offer 5.46%. To resolve their complaint, they want Chelsea to honour the 5.16% interest rate, backdate it to 1 July 2024, and refund the difference between what they would have paid and what they ended up having to pay.

Chelsea said it hadn't done anything wrong. It had made clear when the old interest rate would expire, and it was up to Mrs C and Mr G to apply for a new one. It wouldn't agree to offer the 5.16% rate, or backdate the rate they ended up taking. But it did offer £20 compensation for how it had handled their complaint – not addressing all issues in its initial response, and not calling them back as agreed. When Mrs C and Mr G referred their complaint to us, it offered a further £100 compensation – making £120 in all.

Our investigator didn't think the complaint should be upheld. Mrs C and Mr G didn't agree and asked for it to be reviewed by an ombudsman. They said:

- Chelsea could not show that the April 2024 letter had been delivered. They hadn't received it. And reliance on a single letter is not enough to show fair treatment.

Chelsea ought to have sent multiple communications or confirmed receipt. Many other lenders do this, and so should Chelsea.

- An offer of nominal compensation without addressing the financial loss is not fair.

- Failure to provide proper notification is a breach of the Equality Act, because it placed Mrs C and Mr G at a disadvantage compared to customers who were properly notified their rates were ending.

- If the April letter was not received, then Chelsea had failed to provide proper notice, in breach of its obligations. Relying on the earlier mortgage offer, from months earlier, is not reasonable and not a substitute for timely communication when it was needed.

- Chelsea has put all the burden on Mrs C and Mr G, so has not acted in good faith to allow them to avoid disadvantage.

- An offer of compensation is an admission of fault, so Chelsea should compensate them in full. And £120 is not proportionate to the upset caused either.

As no agreement could be reached, I now need to make a final decision about the complaint.

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.

In doing so, I take into account – among other things – relevant law. Mrs C and Mr G have referred to the Equality Act. But I don't think that is relevant law in this case. The Equality Act is concerned with differential treatment because of one of the nine protected characteristics (such as age, sex, disability, and so on). There's no suggestion, or evidence, that Chelsea has discriminated against Mrs C and Mr G on the basis of one or more of the protected characteristics. The Equality Act is not relevant to questions of fair treatment between customers of a firm other than on the basis of protected characteristics.

What is relevant is the rules of mortgage regulation, and Chelsea's regulatory obligations of fair treatment and effective communication more broadly.

With that in mind, I've looked at what Chelsea told Mrs C and Mr G about their interest rate and when it ended.

In June 2022, Chelsea sent a product transfer offer, confirming the switch to a new fixed rate. The offer said that a fixed rate of 2.64% would apply until 30 June 2024, to be followed by the SVR.

In 2023, Mrs C and Mr G decided to move house. They applied to Chelsea to port their existing fixed rate, and take additional borrowing.

In December 2023, Chelsea sent them a mortgage offer for the new property and further borrowing. This confirmed that the 2.64% fixed rate on part one of the mortgage (the old balance ported across) ran until 30 June 2024, to be followed by the SVR. Part two – the further borrowing – was offered at a fixed rate of 6.25% until 31 January 2026, to be followed by a discount rate and then the full SVR from 2029. This offer was replaced by a further offer in January 2024, again confirming the interest rate and expiry date of 30 June 2024 on part one, and replacing the 6.25% fixed rate on part two with a 4.84% fixed rate.

Also in January 2024, Chelsea sent the annual mortgage statement for 2023. This confirmed, at part five of the statement, that the 2.64% fixed rate would expire on 30 June 2024.

Finally, in April 2024, Chelsea sent a letter reminding Mrs C and Mr G that the fixed rate on part one of their mortgage would expire on 30 June and revert to the SVR on 1 July. The letter said that the SVR was currently 8.24%, which would result in the monthly payment increasing to £3,354.46. It said that Mrs C and Mr G could apply for a new fixed rate at any time, but for a new rate to be in place immediately on the end of the old one, they would need to apply at least seven days before the expiry date.

I've seen a copy of the letter, and I've seen a note confirming it was sent recorded on Chelsea's system. I'm satisfied that Chelsea did send that letter to Mrs C and Mr G.

It was sent by standard post. Mrs C and Mr G say they didn't receive it. Although post does occasionally go astray, that's a comparatively rare event and the overwhelming majority of post is delivered correctly. Mrs C and Mr G haven't said that they have been having problems with their post more generally, and there's no evidence of this letter having been returned to Chelsea undelivered. Nor have they said that they didn't receive any of the other documents Chelsea sent them. On balance, I think it's more likely than not that the letter was delivered to Mrs C and Mr G's address, even if they either didn't notice it at the time or don't recall having seen it now.

However, even if I'm wrong about that I don't think it would make a difference to the outcome of this complaint, for several reasons.

Firstly, it's not unreasonable for Chelsea to rely on standard post for sending correspondence to its customers. The vast majority of post is delivered correctly so it's a reliable and generally accepted method of communication.

Secondly, there's no regulatory obligation on Chelsea to communicate in a different way. The regulatory obligations are about the content and effectiveness of communication, not the particular method of transmission. Clearly if communications aren't received they can't be effective, but as I've said reliance on standard post is not unreasonable.

Thirdly, what the regulatory rules – and the obligations of fairness – require is not that Chelsea sends a particular letter by a particular method on a particular day. What they require is that Chelsea makes sure Mrs C and Mr G have enough information, communicated clearly and fairly, to be able to make effective decisions for the management of their mortgage. In other words, Chelsea needs to make sure Mrs C and Mr G knew what they were paying and when their interest rate would expire – so that they could apply for a new rate in good time if they wanted one.

I'm satisfied Chelsea did that. I've explained why I think it's more likely than not that Mrs C and Mr G did receive the April letter, and why it was reasonable for Chelsea to rely on that as a method of communicating with them. But even if neither of those things were true, Chelsea still did enough to make sure that Mrs C and Mr G had enough information to know when their existing fixed rate would expire so that they could apply for a new one in good time. It told them that in June 2022, December 2023 and twice in January 2024 – and those are just the specific instances I've seen evidence of. It's very likely that their existing rate would also have been discussed with them as part of the advice given, and application made, to port their mortgage in late 2023.

It wouldn't be right for a mortgage lender simply to impose a new interest rate on the expiry of an old one. Many customers want a new rate – but many others don't. Ultimately, it's up to a customer to apply for a new interest rate if they want one.

I'm satisfied that Chelsea made clear to Mrs C and Mr G when their old fixed rate would expire many times. It was up to them to apply for a new rate if they wanted one. They had enough information to be able to do that.

I don't therefore think that Chelsea acted unfairly. It did not prevent Mrs C and Mr G applying for a new fixed rate any sooner than they did. It wouldn't be fair to require Chelsea to backdate the interest rate to 1 July, before they made an application. And it wouldn't be fair to require Chelsea to apply a rate available in April when Mrs C and Mr G didn't apply until July. Chelsea correctly offered Mrs C and Mr G a rate from the range of those available at the time of their application, and applied it to their mortgage from that time. That was fair and reasonable, and so there is no financial loss for me to require Chelsea to refund.

Chelsea has offered £120 compensation for not addressing every point Mrs C and Mr G made in its final response, and not ensuring they were called by a manager as they were promised they would be when they complained. I think that's a fair offer. I've noted what Mrs C and Mr G have said about that. But, as I've explained, I don't think their substantive complaint should be upheld, so there is no financial loss or material distress or inconvenience arising from the rate switch to compensate them for. This offer of compensation therefore should be proportionate to the upset caused by the failing in complaint handling – not to the impact of the rate switch itself. There is nothing to compensate them for in that.

My final decision

My final decision is that Yorkshire Building Society trading as Chelsea Building Society has made a fair and reasonable offer to resolve this complaint and should pay Mrs C and Mr G £120 compensation (including any payment already made).

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C and Mr G to accept or reject my decision before 4 February 2025.

Simon Pugh
Ombudsman