

## The complaint

Mr C and Ms K complain that Lloyds Bank PLC reduced their contractual monthly payments ("CMP") due under a repayment mortgage when it recalculated the mortgage payments. Mr C and Ms K say that in doing so, the bank retrospectively cancelled overpayments they had made which restricted their ability to pay down the mortgage in the future. Mr C and Mrs K would like Lloyds to reverse its decision to recalculate their payments annually.

## What happened

Mr C and Ms K took out a mortgage with Lloyds for £324,000.00 in 2013 for a 22-year term. During the term they took out fixed rate products and made overpayments up to 10% of the mortgage balance in any one year. In November 2021 Mr C and Ms K wanted a new fixed rate product and a reduced term to allow them to make higher payments and higher overpayments than would otherwise be the case. The term was reduced now ending in January 2028 and they fixed the interest rate with a five-year mortgage product – ending in January 2027 - and paid a CMP of £2,155.09 and a regular monthly overpayment of £500. But they then noticed that since August 2024 the direct debits were reduced to £1,793.44. Mr C and Ms K were told that the CMP is now recalculated every year and, for them, any payments over £1,793.44 would be counted as overpayments.

Mr C and Ms K complained, and Lloyds responded to say that the CMP had been recalculated in line with its current processes. Lloyds says that in 2019 it changed its processes and its terms and conditions and wrote to its customers saying that its processes were changing. The terms and conditions were altered to say that "*we may also make an extra charge to your monthly payment every year to ensure it remains on track to pay off everything you owe other than any arrears, by the end of your mortgage term.*" Lloyds says that it wrote to Mr C and Ms K on 30 April 2024 before the annual recalculation process. Then in the summer, it did the recalculation. Mr C and Ms K complained.

Lloyds responded to the complaint on 4 October 2024 saying that it had introduced a new annual mortgage calculation to help ensure their account stays on track to be repaid by the end of the mortgage term and in doing so was following regulatory requirements and its own guidelines to treat customers fairly and consistently.

Lloyds says that it informed Mr C and Ms K in advance of the recalculation and that it did nothing wrong as it had informed Mr C and Ms K of the annual recalculation coming down the line. But on reflection it said that as this was the first time that the annual recalculation had been done it should have offered a temporary agreement to reverse the recent repayment calculation and offered that but if Mr C and Ms K wanted a permanent increase in their payments, they could apply for a term reduction. Our investigator also thought that Lloyds had done nothing wrong, and its offer of settlement was fair. Mr C and Ms K disagreed and asked for a review.

## 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.

Lloyds says that it first contacted its customers in 2019 to say that it was introducing a new process whereby monthly payments would be recalculated annually to ensure the mortgage balance was on track to be repaid by the end of the mortgage term. It says this was a full book mailing sent out to all its customers but at that stage the recalculation was not introduced but says that in advance of the introduction of the annual recalculation it inserted on the annual statements text to say:

*“Update about your yearly mortgage payment check*

*In 2019, we wrote to you about bringing in a yearly check with your annual mortgage statement to make sure your mortgage payments are on target. We have not done this yet but will let you know when your first yearly check happens.”*

Again, in anticipation of bringing in this annual recalculation, Lloyds made amendments to the mortgage terms and conditions in 2019. The 2019 mortgage terms and conditions document at Section 1 says that Lloyds may need to adjust the monthly payments so that they can continue to be at the level needed to pay off the mortgage balance by the end of the term if certain events occur including if:

*“you make an overpayment or you underpay “*

*or if “it will help comply with any laws or regulations or help comply with any change in how those laws and regulations are applied or interpreted”*

*and then says “we may also make an extra change to your monthly payment every year to ensure it remains on track to pay off everything you owe other than any arrears by the end of your mortgage term “*

When Mr C and Ms K got a new mortgage product offer in 2022, that offer incorporated the 2019 terms and conditions. I note on the first page of the offer it says:

*“On completion of this mortgage loan, the existing mortgage will be varied so it will be governed by the Lloyds Bank mortgage conditions 2019 enclosed (the new conditions). These will replace the mortgage conditions which currently apply (the old conditions).*

*You agree to the new conditions being substituted for the old conditions for the whole of this mortgage on completion of the transaction. You also agree that, if we ask you to, you will enter into a deed which formally records the substitution of the new conditions for the old conditions.”*

When Mr C and Ms K accepted the mortgage product offer their intention was that in addition to paying the CMP they also intended making overpayments. When I look at the mortgage offer to see what overpayments they can make it refers me to an *“Information about your mortgage document.”* Part of that document deals with an Early Repayment Charge (“ERC”) which could be applied to an overpayment except that it says that Lloyds currently operates a concession and that an ERC won’t be charged on overpayments of up to 10% of the amount owed on 1 January in any given year. But in regard to the effect of overpayments on the mortgage term, the document goes on to say:

*“Overpayments will not reduce your mortgage term. Whenever we recalculate your monthly payment we will use the reduced balance to work out the new payment over your existing term”*

The document then goes on to say:

*“Any recalculation of your monthly payment will include the overpayments. This means that if you only pay the new monthly payment, your loan will be repaid over your existing mortgage term.”*

Then Lloyds says it wrote to all its customers in May 2024 asking them to check their next annual statement to see if their payment will change. I note that Mr C and Ms K's annual mortgage statement on 2 July 2024 told them that in August their CMP would be reduced to £1,793.44. So, at that stage the recalculation came into effect.

My understanding of all this is that Lloyds was introducing a recalculation for compliance purposes but not introduced immediately. When introduced it meant that overpayments will not reduce the mortgage term, and the reduced balance will be used to work out the new payment over the existing term to ensure that everything owed is paid off by the end of the mortgage term. I've read carefully, Mr C's submissions in which he discusses the use of the word “by” as the higher repayments they were making would ensure repayment of the balance by the end of the mortgage term even if it got paid off before that date. But the intention is clearly that, as is normal in mortgage regulation, the recalculation will involve calculating the monthly payments over the whole of the remaining term of the mortgage so that the mortgage is paid by the end of the term.

This is not how Mr C and Ms K would like it to work but is it fair? Clearly the change was a long time in the planning. My experience is that several lenders in anticipation of the new consumer duty legislation introduced similar schemes in their interpretation of what they considered was required to be done to comply with the duty to avoid foreseeable harm to consumers. The harm that's intended to be avoided here is that without a recalculation, customers will be paying more than they need to pay monthly given their chosen mortgage term. There is a potential for harm for consumers when payments are higher than they need to be.

I don't agree with Mr C and Ms K stated in Mr C's email to us of 10 October 2024 that this is something that Lloyds can't do because it didn't have their agreement. As I set out above when they agreed to the 2001/2022 mortgage product offer, Mr C and Ms K agreed to these terms. I also consider that the objective of all this is to comply with consumer regulation and I'm obliged to consider good industry practice in deciding what's fair and reasonable. I note that other lenders in the industry have introduced recalculation of payments in a similar way. So, I can't fairly say that this recalculation is unfair, and I don't agree with Mr C and Ms K that Lloyds should reverse its decision to review their payments annually and I don't require Lloyds to do that.

But Lloyds should recognise that Mr C and Ms K had other objectives when they took out the mortgage product to overpay and reduce the balance and reduce the interest in the future which they have been able to do to date. Lloyds has suggested resetting the monthly payments to what they were prior to the review - £2,155.09 - until the next review and offered £50 for its poor service in not offering this earlier. I appreciate that it doesn't meet all Mr C and Ms K's objectives but those have to be set against Lloyds rights under the mortgage and its legitimate aim to protect customers and I consider that offer is a fair outcome to this complaint.

**My final decision**

Lloyds Bank PLC has made an offer to settle this complaint by way of a temporary agreement to allow Mr C and Ms K to reset their monthly payments to £2,155.09 until the next review and to pay £50 for its poor service. I consider that this offer is fair in all the circumstances.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Ms K to accept or reject my decision before 27 February 2025.

Gerard McManus  
**Ombudsman**