

The complaint

This complaint is about a mortgage account Mr C and Ms C hold with Santander UK Plc. Mr C and Ms C say that Santander offered them a new interest rate product but then cancelled this without notice. As a result, the mortgage reverted to Standard Variable Rate (SVR).

Mr C, who has dealt with the complaint on behalf of both borrowers, wants Santander to reinstate the rate of 4.04% reserved in May 2023, in place of the rate of 4.83% he and Ms C took out in September 2023.

What happened

Mr C and Ms C's mortgage was on a capital repayment basis. It was on an interest rate product which expired on 3 September 2023.

In May 2023 Mr C and Ms C asked Santander to switch the majority of the mortgage onto an interest-only basis. During a call on 16 May 2023 Santander explained that whilst this process was ongoing, no other changes could be made to the mortgage, such as a new interest rate product.

On 18 May 2023 Santander sent Mr C and Ms C a letter explaining what their mortgage payments would be when the switch to interest-only took effect, with two sub-accounts on an interest-only basis and one still on capital repayment. The letter said: *"Due to the amount of notice we need to amend your account, your new monthly payment may in fact not take effect until the second month after the change has been applied."*

The change to the mortgage was accepted by Mr C and Ms C on 30 May 2023, and was implemented from the following month, on 28 June 2023.

However, before this, on 19 May 2023 Mr C and Ms C went to a mortgage broker to arrange a new interest rate product to take effect from 3 September 2023, when their existing rate expired. Santander's intermediaries portal, through which the application would have been made, states the following:

"When not to secure a new deal for your client

*Your client wants to make **any other changes** (mortgage term, method of repayment, loan amount), borrow more or make an overpayment at the same time."*

The broker secured a five-year fixed rate of 4.04% and an offer was sent on 19 May 2023, overlapping with the documentation about the change to the repayment method.

However, Santander's system cancelled the product switch, presumably due to the fact that at the time of the application, the repayment method change was still being processed and so a new interest rate product couldn't be applied for. Unfortunately, Santander didn't tell the broker or Mr C and Ms C.

Consequently, in September 2023 when the existing rate expired, the mortgage reverted to the SVR of 8% and Santander attempted to take a payment of about £7,000 for the mortgage, which didn't go through. It was at this point that the issue came to light and a complaint was raised.

Santander acknowledged it should have told Mr C and Ms C (or the broker) that the rate had been cancelled. The bank said that the earliest Mr C and Ms C could have applied for a new product was 28 June 2023, which is when the switch to interest-only had gone through. Santander said Mr C and Ms C could pick a rate from those available at that date, and the bank would back-date it to 28 June 2023. Mr C and Ms C picked a new rate of 4.83%. Santander also paid compensation of £250 for distress and inconvenience. However, Mr C and Ms C wanted Santander to reinstate the 4.04% rate they believed they'd secured in May 2023, and to backdate the mortgage accordingly. Santander wasn't prepared to do this.

Mr C and Ms C brought their complaint to our service. An Investigator looked at what had happened. She wasn't persuaded Santander should reinstate the 4.04% rate, as she was persuaded that this rate was no longer available by the time the repayment change had been made to the mortgage. However, she thought the £250 compensation wasn't sufficient and asked Santander to pay an additional £250, so £500 in total.

Santander agreed to this, but Mr C and Ms C didn't. Mr C repeated his arguments about why he believed the 4.04% rate should be reinstated and about how much losing this rate had impacted on him and Ms C.

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.

This complaint turns on what happened in May 2023. The documentation about switching the mortgage repayment method is dated 18 May 2023. This required Mr C and Ms C to sign and accept the change, which they did on 30 May 2023. The switch to interest-only went through the following month, on 28 June 2023.

I'm satisfied Mr C and Ms C were aware – because it had been discussed during the phone call on 16 May 2023 – that whilst the process to switch the mortgage to interest-only was ongoing, they couldn't make any other changes to the mortgage.

Notwithstanding this, on 19 May 2023 Mr C and Ms C's broker applied on their behalf for a new interest rate product. As I've noted above, Santander's intermediaries portal shows quite clearly that a new product can't be applied for whilst other changes to the mortgage (including a change to the repayment method) are pending.

I don't have the broker's file, so I don't know whether Mr C and Ms C told their broker that, at the same time as he was applying on their behalf for the new interest rate product, they were in the middle of switching part of their mortgage from repayment to interest-only. However, I think it's likely, if Mr C and Ms C had told the broker that their switch to interest-only was still going through, that he would (or should) have explained that they couldn't apply for a new interest rate product until the repayment change had been put in place. If Mr C and Ms C *did* discuss this with their broker, but he went ahead and applied for the new rate anyway, that's something they'll need to raise with him.

The switch to interest-only didn't go through until 28 June 2023. That's the earliest date when Mr C and Ms C could have applied for a new interest rate product. The 4.04% rate they thought they'd secured in May 2023 wasn't available on 28 June 2023, so they could never have had that rate. Therefore, although I understand Mr C and Ms C believe they lost out on that rate, it wasn't something that they could ever have had.

Putting things right

Santander has acknowledged that it should have let Mr C and Ms C or their broker know that the 4.04% rate had been cancelled. If the bank had done this, Mr C and Ms C would have been able to apply for a new rate at the end of June 2023. I'm satisfied they'd been told by Santander on 16 May 2023 that they couldn't make any other changes to the mortgage until the repayment change had gone through. But due to the application made by their broker on 19 May 2023, Mr C and Ms C mistakenly believed that their mortgage would switch to the 4.04% rate on 3 September 2023. This didn't happen, and the mortgage reverted to SVR, resulting in Santander trying to take £7,000 for the mortgage payment. I can completely understand that this came as a massive shock to Mr C and Ms C, and caused them some upset.

To be clear, the error *isn't* that Santander didn't put the 4.04% in place – because that rate would never have been available to Mr C and Ms C. The error was that the bank didn't tell them that it had cancelled the rate. Santander, rightly in my opinion, offered to put them back in the position they'd have been in if it had told them in June 2023 that the 4.04% had been cancelled – which is that they'd need to wait to apply for a new rate until the repayment change had gone through.

This resulted in Mr C and Ms C choosing a rate that was available on 28 June 2023, and the bank backdating this. I think this is fair in all the circumstances, as it puts Mr C and Ms C in the position they'd have been in if the error hadn't been made.

I've noted what Mr C has said – which is that if he'd known in June 2023 that the 4.04% rate wasn't available – he'd have looked around for a new mortgage with another lender. Whilst I don't disagree that Mr C and Ms C could have done this, no evidence has been provided of the rates or type of mortgage they could have applied for, or whether they'd have met other lenders' criteria for an interest-only mortgage. I can't speculate on what Mr C and Ms C might have done in the absence of any evidence in support. In the circumstances, I'm not persuaded that Santander should compensate them for losing out on an interest rate they might, or might not, have been able to apply for with another lender.

I'm satisfied Santander's actions caused Mr C and Ms C distress and upset. I agree with the Investigator that a total payment for this of £500 is fair and reasonable, to include the £250 already offered by Santander.

My final decision

My decision is that, in addition to the £250 compensation already paid, Santander UK Plc must pay Mr C and Ms C £250 compensation for distress and inconvenience. I make no other order or award.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any discussion about it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Ms C to accept or reject my decision before 26 March 2025.

Jan O'Leary
Ombudsman