

## **The complaint**

Mr and Mrs D complain that Accord Mortgages Limited switched their mortgage onto an interest only payment basis without their consent. They ask for financial redress for the capital that would have been repaid, if Accord had recalculated their monthly payments when interest rates increased.

## **What happened**

Mr and Mrs D took out a mortgage with Accord in 2017, on a capital repayment basis. In 2021 Accord gave consent for Mr and Mrs D to let the property as they were living overseas.

Mr and Mrs D had a fixed interest rate product which expired in December 2022. Accord's standard variable rate (SVR) applied after this. Mr and Mrs D say Accord changed the mortgage to interest only payment terms. They say the capital balance didn't reduce as they expected, causing them financial loss. Mr and Mrs D only discovered this in April 2024 when they were looking to re-mortgage.

Accord said the mortgage wasn't switched to interest only payment terms. It says its SVR applied after Mr and Mrs D's interest rate product expired. Accord says it recalculates monthly payments on an annual basis, with the new payments starting in March. The SVR increased several times between March 2023 and March 2024. Mr and Mrs D didn't increase their monthly payments, so as the amount of interest increased the amount of capital repaid each month reduced.

Our investigator said Accord applied interest and calculated monthly payments in accordance with the mortgage terms and conditions. Our investigator said Accord made Mr and Mrs D aware of the changes in the SVR, and that they could ask to have their monthly payments recalculated.

Mr and Mrs D didn't agree. They say they aren't claiming the mortgage was officially converted to interest only. They say because Accord has an annual recalculation process their mortgage effectively functioned on an interest only basis for 18 months, without their knowledge or consent.

Mr and Mrs D say this caused them financial harm and Accord didn't do enough to explain the consequences of making fixed payments when interest rates were rising. Mr and Mrs D said they had a shortfall when they remortgaged and had to borrow money to cover costs.

## **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.

Accord didn't change Mr and Mrs D's mortgage to interest only payment terms. The capital balance of Mr and Mrs D's mortgage didn't reduce as much as they expected because their monthly payments didn't increase when the interest rate increased.

While it seems Mr and Mrs D now accept this is the case, they say the mortgage *operated* as if it was on interest only terms because Accord only recalculates monthly payments on an annual basis.

Mr and Mrs D's mortgage was on a fixed rate until December 2022. The mortgage was on the SVR from January 2023 to July 2024 (when the mortgage was redeemed).

Accord sent an annual statement for 2022 to Mr and Mrs D in January 2023. This set out their new monthly payment from March 2023. This increased from about £2,200 to about £3,500.

There were several interest rate increases in 2023. Accord says it wrote to Mr and Mrs D when there were changes to the SVR. Its records support this. It provided an example letter, which includes an explanation about how the change in the SVR might affect the mortgage.

Accord sent an annual mortgage statement for 2023 to Mr and Mrs D in January 2024. This showed the change in the balance over the year (the balance reduced by about £500). It also set out the new monthly payment from March 2024, which increased to about £4,000.

Mortgage lenders have to calculate (and periodically recalculate) monthly payments with the aim that a repayment mortgage is repaid by the end of the term. The proportion of a monthly payment that repays capital isn't "even" through the life of the mortgage. It tends to be smaller at the beginning than towards the end of the term. And it tends to be smaller when the interest rate is higher.

Accord recalculates payments on an annual basis. I think Accord made Mr and Mrs D aware of this. The mortgage offer issued in 2017 says monthly payments are recalculated annually. The annual mortgage statements sent to Mr and Mrs D set out the new payments due from the following March. And the letters sent to Mr and Mrs D when the SVR increased also say this.

Mr and Mrs D say that recalculating payments on an annual basis isn't consistent with the principles of a repayment mortgage. Recalculating monthly payments on an annual basis should still result in the mortgage being repaid by the end of the term. However, there are potential disadvantages for customers. Accord explained this in the letters it sent when the SVR increased. These letters say that the increase in the SVR without an increase in the monthly payment might result in underpaying the interest. They say it could mean a larger than expected increase in the mortgage payments from the following March, which could be significant. The letters say customers can request a mortgage payment recalculation online or by phone at any time.

I think Accord did make Mr and Mrs D aware that an increase in the SVR without an increase in the monthly payment could result in underpayments. And that they could ask for a recalculation at any time – they didn't have to wait for the annual recalculation.

Mr and Mrs D say their financial loss is the amount of the capital they think they'd have repaid if Accord had re-calculated their payments when the SVR increased. For completeness, I should say that I couldn't fairly agree with that, even if I had found that Accord had made an error.

Mr and Mrs D borrowed the money and it's reasonable for Accord to expect them to repay it. I don't think it's fair and reasonable to require Accord to write off part of the debt on the basis Mr and Mrs D say they'd have already repaid it if their payments had been re-calculated or they'd understood that the amount of capital they were paying had reduced. They didn't actually make the repayments, so this was money that they owed to Accord.

Mr and Mrs D could have contacted Accord about increasing their payments when the SVR increased, but didn't do so. They could have increased their payments after Accord issued the annual mortgage statement for 2023, which showed the capital had only reduced by about £500, but didn't do so.

If Mr and Mrs D did have additional funds and wanted to increase their monthly payments or make overpayments to reduce the capital balance there was nothing to stop them doing so. Mr and Mrs D missed payments in May and June 2024, and said they had to borrow money to cover essential costs when they re-mortgaged. This could suggest they weren't in a position to make additional payments.

Mr and Mrs D estimate they'd have repaid about £43,000 of capital if the fixed interest rate had continued to apply and they'd made the same payments. The fixed interest rate product expired in December 2022. Mr and Mrs D didn't take out a new product. I don't think Accord made an error when it applied the SVR to their mortgage.

Accord says it wrote several times to Mr and Mrs D in late 2022 reminding them their product was due to expire and setting out their options to take out a new product. It provided evidence to support this. The letters it sent to Mr and Mrs D when the SVR changed also said they could take out a new interest rate product.

I think Accord made Mr and Mrs D aware that they were on the SVR and had the option of taking out a new interest rate product.

Accord says while Mr and Mrs D were overseas it was their responsibility to ensure mail was forwarded to them. Accord says Mrs D had online access which she did use. It provided records to support this. It says Mrs D could have checked information about the mortgage online, and made applications online, for instance for a new product or for their monthly payment to be re-calculated. I think that's reasonable.

Mr and Mrs D say their mortgage balance increased by about £6,000 between December 2023 and July 2024, when they redeemed the mortgage. Accord says that's because of arrears of about £8,000 due to the payments due in May and June 2024 being missed.

When Mr and Mrs D re-mortgaged they had a shortfall – the new loan wasn't enough to repay the balance owed to Accord. I understand that was disappointing. But I don't think this was due to Accord making an error or treating them unfairly.

Taking all of this into account, I don't think it's fair and reasonable to require Accord to write off part of the debt that Mr and Mrs D owed, pay compensation to them or take further steps regarding their complaint.

### **My final decision**

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D and Mr D to accept or reject my decision before 27 August 2025.

Ruth Stevenson  
**Ombudsman**