

The complaint

Mr M complains that Skipton Building Society has unfairly increased his mortgage payments despite the interest rate going down.

What happened

Mr M has a mortgage with Skipton. The interest rate on his mortgage tracks the Bank of England base rate (the base rate). He complains that despite the interest rate on his mortgage going down, his monthly payments have increased.

Skipton explained that it recalculates the monthly payment when the base rate changes. Because interest is debited on the first of the month and Mr M does not make his monthly payment until the 20th of the month, the payments were calculated on a higher balance.

I issued a provisional decision proposing to uphold the complaint. My provisional findings, which form part of this decision, were:

I must take into account the relevant rules (amongst other things) in determining what I consider to be fair and reasonable in the individual circumstances of this complaint. That includes the Consumer Duty. It says that businesses should avoid causing foreseeable harm.

I consider there is the potential for some harm to consumers in Mr M's situation. His mortgage payment was higher than it needed to be because it was calculated when interest has been applied for the month, but before he has made his monthly payment. In saying that, I accept that Skipton has applied interest and calculated the payments in line with the terms and conditions of the mortgage. And I agree there is also scope for confusion and harm if it were to calculate the payments using anything other than the actual balance on the relevant date.

I accept that the letters Skipton sent to borrowers said that they could contact it by phone if they need further information about why their payments had gone up. It is not clear why Skipton considers that is adequate in respect of meeting its customers information needs and bearing in mind there is a degree of inconvenience in having to contact it by phone.

Skipton has also accepted that Mr M contacted it regarding the recalculations in August 2024 and November 2024 he was promised an explanation and that his payments would be recalculated, but neither of those requests were processed. It also accepted that it gave Mr M poor service during a later phone call.

Nevertheless, Skipton has offered to automatically recalculate Mr M's monthly payment if his payment goes up following a reduction in the base rate without him having to contact it. In the individual circumstances of this complaint, I consider that is a fair and proportionate way to put things right. But I would invite Skipton to clarify what that means for its communications. If the rate were to go down and Mr M's payment went up again, would it still write to Mr M to say that or not? And if so would it follow it up with another letter confirming that the payments have been adjusted in line with its offer? Skipton should

explain how it intends to communicate with Mr M in future in these circumstances.

That leaves a payment for any distress and inconvenience Mr M has suffered as a result of this matter. Skipton has already accepted that it failed to properly deal with Mr M's requests in August and November 2024 – and that the service it provided in December 2024 was poor. That meant Mr M had to spend more time and effort in trying to get a full explanation and in amending his payments.

It took at least three months for Skipton to provide a proper explanation to Mr M and to recalculate his payments. He had to pay more than necessary and he has suffered avoidable stress during that time. I consider an award of £300 to reflect that is fair in all the circumstances.

Mr M responded to make a number of points, including:

- He had no idea how Skipton intends to recalculate his repayment without him needing to contact it.
- The terms and conditions say where there is a change of interest rate, your repayment will be calculated from the 1st of the following month. He believed that the new payment would be calculated when all payments were up to date.
- He previously had a tracker mortgage with Skipton and this problem did not occur. That suggests Skipton must have changed its policy since then to require payment dates on the 1st of the month. But it did not take into account the interests of longer term borrowers who may have a different repayment date.
- The repayments were only recalculated because he spotted the irregularity. There was the potential for harm to customers because Skipton could collect more interest than necessary.
- A decision requiring Skipton to honour its offer to recalculate payments without the need for him to contact it and to pay him £300 would be an agreeable outcome for him.

Skipton responded to say that it accepted my provisional decision. It said there was not currently a process in place to recalculate payments without Mr M contacting it. There is a risk it would not do it automatically every time and it was working to resolve that.

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.

Skipton made its offer to recalculate Mr M's payment every time there was a change to the base rate in January 2025. It is disappointing that it made that offer without having a suitably robust process in place to facilitate it and a lack of detail about what that will entail. I am not going to delay things further.

Skipton has made that offer and it should take whatever steps necessary to make sure that it changes Mr M's payments when the base rate changes without him needing to contact it. Its system limitations might mean that is a manual process. But I'd expect a regulated mortgage lender to be able to action such a request without any further inconvenience to its customer.

It is not clear if Mr M will continue to receive automated letters when the rate changes. Skipton should write to Mr M and tell him whether it will continue to send those letters or not

and what that means for him bearing in mind it has agreed to recalculate his payments when the rate changes. It should also write to Mr M when it carries out any manual recalculation, setting out what it has done in a suitably clear, fair and not misleading way.

I can't tell Skipton to change its systems. And I can't predict what will happen in the future. The manual workaround might work without any problems. But if it does not then I'd hope that Skipton would take steps to redress Mr M with as little inconvenience for him as possible.

I haven't seen Mr M's previous mortgage offer. So I can't say why Skipton previously calculated things differently. But the latest mortgage offer set out that when the interest rate changes it will be recalculated on the from the first of the month following the rate change. I do not see how that could be interpreted in the way that Mr M has.

I agree that Skipton has not treated Mr M fairly or reasonably by administering the mortgage in this way – there is likely to be some foreseeable harm to Mr M as his payment date is not on the first of the month. There were also shortcomings in the way it has communicated with Mr M and in the service it provided. But I think the redress proposed in my provisional decision is a fair way to put things right.

My final decision

Skipton Building Society should:

- Pay Mr M £300.
- Honour its offer to automatically recalculate Mr M's mortgage payments should the interest rate decrease but his payments increase.
- Within 28 days of Mr M accepting this decision write to him to tell him whether it will continue to send automated letters when the rate changes and what that means for him bearing in mind it has agreed to manually recalculate his payments.
- Each time it manually recalculates the payment on Mr M's mortgage, write to him and set out what it has done in a way that meets Mr M's information needs.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 16 September 2025.

Ken Rose
Ombudsman