

The complaint

A company, which I'll refer to as L, complains that Charter Court Financial Services Limited, trading as Precise Mortgages, has wrongly charged extra interest on redemption of a mortgage.

What happened

In July 2019, L borrowed £456,000 on a commercial mortgage from Precise Mortgages. The mortgage was interest only, with a fixed interest rate of 3.84% for the first five years, then moving to a variable rate for the remainder of the 35-year term.

In mid-2020, L had a three-month payment holiday – because of the coronavirus crisis - and the interest for that period was added to the balance of the loan.

In the summer of 2024, L paid off the mortgage. But the company complained to Precise Mortgages that the redemption sum was incorrect, saying that there was an interest charge of £1,221.89 which shouldn't have been added to the redemption statement.

L's director, Miss P, said that the mortgage contract stated that interest payments were taken in advance, and therefore no additional interest should have been due on closure.

Precise Mortgages said that the instalments were taken in advance but the interest was calculated in arrears, and that the redemption calculation was accurate. L wasn't satisfied with Precise Mortgages' response and referred the complaint to us.

Our investigator looked at the payments and concluded that the interest had been taken in arrears and that the interest charged was correct. In summary, she said:

- The first payment, taken on 8 August 2019, was used partly to pay the interest that had accrued in the first few days of the loan up to 1 August 2019, and the remainder was used as an overpayment to reduce the capital balance of the loan.
- Thereafter, interest continued to be added to the account monthly in arrears.
- After the repayment holiday, the monthly repayments were recalculated to reflect the interest accrued in the holiday and the August 2019 overpayment.
- The capital settlement figure in 2024 was lower than it would have been had the August 2019 overpayment not been made.
- The final interest payment was contractually due.

The investigator said she thought the information provided by Precise Mortgages at the outset of the mortgage was confusing, but she didn't think the way the interest had been applied had resulted in a detrimental impact on L's account. She found that the interest had been applied correctly and in line with the rate agreed.

L didn't accept the investigator's finding that the interest had been correctly charged. Miss P said that from the start, she has had to accept what people tell her without being provided with any evidence. In particular, she said she couldn't see that the August 2019 overpayment had been applied to the account following the 2020 payment holiday.

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.

I'm sorry to disappoint Miss P, but I too have concluded that the interest was correctly applied monthly in arrears and that the final interest charge wasn't wrongly applied.

First, I should say that I agree with the investigator that the information provided by Precise Mortgages at the outset was confusing and not wholly consistent, so I can understand why Miss P has found it hard to believe that nothing has gone wrong in the interest calculations. But I do think it was a matter of confusing wording, rather than a failure to charge the correct amount. I'm satisfied that Precise Mortgages intended from the outset to apply interest charges as it did in practice. I'm also satisfied that the way the interest was applied didn't result in L paying more than it should have.

In its response to L's complaint, Precise Mortgages said "*The interest is calculated in arrears, your instalments are paid in advance,*" which in my view didn't do much to clarify things for Miss P. But it does technically describe what actually happened. The first payment was received by direct debit ahead of the first whole month of the loan term, and the amount was deducted from the loan balance on the same day. So the instalment was a payment in advance. That process was repeated monthly. And the interest due at the end of each month was added to the loan balance on the first day of the next month. So the interest was calculated in arrears.

I've looked carefully at the loan statements and the redemption statement and I hope I can demonstrate to Miss P that the final interest charge wasn't unfair. In my reasoning below, I've rounded the figures to the nearest pound for ease of reading. Throughout I've referred only to documents already in Miss P's possession.

What happened when the first payment was taken?

The balance of the loan account at the outset on 25 July 2019 was £462,840, made up of the £456,000 borrowed plus the £6,840 product fee.

In the few remaining days of July, a small amount of interest accrued (£341) and this was added to the loan account balance. So the balance on 1 August 2019 was £463,181 ($462,840+341=463,181$).

On 8 August 2019, the first payment of £1,478 was taken by direct debit from another account and applied to the loan account. This reduced the loan account balance to £461,703 ($463,181-1,478=461,703$).

Note that at this time – at the end of 8 August 2019 – the loan account balance was lower than at the outset, by over £1,000. This is what was meant in Precise Mortgages' argument that after paying £341 initial interest, the remainder of the August payment reduced the capital balance of the loan.

What happened when the second payment was taken?

On 1 September 2019, two things happened. First, the interest accrued in the previous month (£1,506) was added to the loan balance, bringing it up to £463,209 ($461,703 + 1,506 = 463,209$). Then, secondly, the direct debit payment of £1,478 was applied to the loan account, bringing the balance back down to £461,731 ($463,209 - 1,478 = 461,731$).

The same thing happened on the first day of each subsequent month – the previous month's interest was added and then the direct debit payment was subtracted. Very roughly, and accounting for variations in the number of days in the month (because interest was calculated on a daily basis and added up at the end of the month), those two figures balanced each other out each month – the interest added and the payment subtracted.

As a result, eight months into the loan term, on 1 April 2020, the loan account balance was £461,721, which was almost the same as it was in August and September 2019. And it remained lower than the balance at the outset of the loan, by over £1,000.

How was interest applied?

The account statement shows that the interest was applied in arrears – in other words, the amount added to the loan account balance on the first day of each month was the interest accrued since the previous payment.

I've made my own calculations for several different months, using the 3.84% interest rate, and I'm satisfied that the interest was indeed calculated in arrears. But an easy way to see whether the interest applied was for the previous month is to look at the interest charged each March. Reflecting the shorter month in February, the interest added to the loan account balance on the first day of March should dip lower than in other months – and that is what happened. If the interest had been charged for the month ahead, the interest added to the loan account balance on the first day of each February would be the lowest in the year – and that's not what happened.

The loan account balance after the payment holiday

When the payment holiday began, the loan account balance stood at £461,721. During the three-month holiday, when no direct debit payments were taken, interest was added to the loan account balance in each month. The loan account balance therefore grew. The three interest payments totalled £4,422 ($1,453 + 1,506 + 1,463 = 4,422$), and the loan account balance grew by this amount to £466,143 ($461,721 + 4,422 = 466,143$).

From this point on, the monthly direct debit payment was changed to reflect the higher loan account balance. The payments became £1,497 per month. I've looked at the loan account statement and that payment was taken by direct debit and subtracted from the loan account balance each month.

Miss P asked why the adjustment for the August 2019 overpayment wasn't shown on the statement when the new monthly payments began at the end of the payment holiday. The reason is that the loan account balance had already been reduced by the overpayment in August 2019. Since that overpayment, the loan account balance had always been about £1,000 lower than the opening balance of the loan.

After the payment holiday, the loan account balance remained each month at about £1,000 lower than it would have been had it not been for the reduction in August 2019. This can be demonstrated by adding together the opening loan account balance in July 2019 (£462,840) and the amount added as a result of the payment holiday (£4,422), to give the amount borrowed plus the increase resulting from the holiday – in other words, the capital that would have been outstanding on the loan account if there had been no reduction in August 2019.

The total is £467,262 (462,840+4,422=467,262), which is over £1,000 more than the actual balance of £466,143 after the repayment holiday.

In other words, the loan account balance had been reduced by the overpayment in August 2019 and it remained at a similarly reduced level, both before and after the payment holiday. Therefore no further adjustment for the overpayment was required after the payment holiday.

The loan account balance at the time of redemption

By July 2024, the loan account balance was £465,844. This was still less than the total of the amount borrowed plus the increase resulting from the holiday. The difference remained more than £1,000. The August 2019 overpayment therefore continued to keep the balance below what it would have been without that overpayment.

Was the final interest charged unfairly?

I'm satisfied that the monthly interest was charged in arrears, so I don't think it was wrong to add the final interest, for the days since the previous payment, to the redemption statement.

Miss P feels that as L made the payments in advance from the outset, the final interest charge of £1,222 was an unfair addition. But my analysis above shows that at redemption, the capital balance was £1,418 lower than the total of the amount borrowed plus the increase resulting from the payment holiday. The capital balance was lower because Precise Mortgages had treated most of L's first payment as an overpayment.

In short, although charging the interest in arrears resulted in a final interest charge, it also resulted in a reduction in the capital balance owed, and these roughly cancelled each other out in the amount required for redemption.

In summary

For the above reasons, I'm satisfied that Precise Mortgages didn't act unfairly in charging the loan interest in arrears, and I find that the final interest in the redemption statement wasn't unfairly charged.

My final decision

My final decision is that I don't uphold this complaint and I don't require Charter Court Financial Services Limited, trading as Precise Mortgages, to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask L to accept or reject my decision before 24 February 2026.

Colin Brown
Ombudsman