

## **The complaint**

Mr B complains that Lloyds Bank PLC (Lloyds) recalculated his contractual monthly payment (CMP) following him making overpayments, when he wanted this to remain the same to repay his mortgage quicker. He is also unhappy that if he wants to formally reduce the term, Lloyds requires him to complete a new application including a full income and expenditure (I&E) assessment.

## **What happened**

Mr B took out a mortgage with Lloyds in September 2019 with a fixed rate until the end of August 2029 and a CMP of £669.42. The mortgage terms allow him to make an overpayment of up to 10% of the mortgage balance (as at the start of the calendar year) without incurring any early repayment charge (ERC).

Mr B has made a number of overpayments since taking out the mortgage. In January 2025, he contacted Lloyds to ask how much he could pay to remain within his 10% allowance and made an overpayment of £5,180.86. He says that he wanted to keep his CMP the same as his intention was to repay the mortgage in full before the end of the 10-year fixed term. However, the agent Mr B spoke with advised that he would need to speak with a financial adviser to arrange this as it would involve an application to reduce the term.

Prior to the appointment, Mr B says that the adviser contacted him to inform him about the process and that he would need to go through a full I&E assessment which would take around two hours. He says that he was not told about the process at the time the appointment was scheduled and didn't receive any written correspondence about the structure of the appointment. Mr B says that when he had previously made overpayments on his mortgage, he has not needed to go through this process and that his CMP has remained the same with no change to his mortgage term.

Mr B is unhappy about having to complete an I&E assessment and says that the mortgage terms allow him to make overpayments of up to 10% a year without incurring any fees or affecting the CMP. He says that he has not been made aware of any changes and that previous overpayments have not resulted in the CMP being recalculated. Mr B says that Lloyds is hindering his strategy to repay the mortgage in full by the end of the fixed term. He would like to continue making the 10% overpayment each year and for his CMP not to be impacted by this and to remain unchanged.

Mr B says that he raised a formal complaint during the call with the mortgage adviser and was told that he would get a call back from a manager within 24 hours. However, this did not happen so Mr B had to call Lloyds back and query what was happening with his complaint, which he says caused him inconvenience. He has provided evidence of the incoming call from Lloyds during which he said his complaint was made.

Lloyds was unable to locate the call in January 2025 where Mr B made a complaint but accepted that he had done so and apologised for the service received in that his complaint was not raised at that stage. Lloyds offered Mr B £40 in respect of the upset and inconvenience caused by his having to make contact when he heard nothing back.

In respect of the overpayment, Lloyds says that in 2023, it made a business decision to introduce an annual recalculation of the CMP on all mortgage accounts on their anniversary. This was following the introduction of the Consumer Duty by the Financial Conduct Authority

(FCA) and aligns to the principle of avoiding potential harm to customers. It ensures that the CMP is aligned to repay the balance over the remaining term and avoids customers paying more than they need to, whilst still giving them the conscious choice to overpay or amend the term if they wish. As Mr B's CMP was recalculated in line with its policy, Lloyds did not accept that it had made an error.

Lloyds says that when an overpayment is made, the mortgage term is not automatically reduced; the overpayment reduces the balance and interest is charged on the lower balance. It says that in order to formally amend the mortgage term, Mr B would need to speak with a mortgage adviser to go through an affordability assessment. Lloyds says that it is not stopping Mr B from overpaying, nor repaying his mortgage within a shorter term, but the way in which this can be done differs from how the account was previously administered.

Although Lloyds did not accept it had done anything wrong, in order to resolve the complaint, it offered to remove his mortgage account from its annual recalculation process going forward until the end of the current fixed term on 31 August 2029.

Lloyds offered to revert the CMP back to what it was prior to the annual recalculation in September 2024. It also offered Mr B the option of paying the difference between the CMP of £619.60 before the annual recalculation in October 2024 and new CMP of £612.95 from October 2024 to September 2025, which would not be included as part of his 10% overpayment allowance.

Our Investigator looked into Mr B's complaint and concluded that the account had been operating within the terms and conditions agreed and he considered that Lloyds' offer was fair.

Mr B disagrees with this so the case has come to me to make a decision. He says that he would like the CMP to be returned to the original amount that he was paying at the start of the mortgage. He would also like to be able to pay the difference between that and what his CMP was reduced to without this being considered as part of his overpayment allowance, along with any additional interest he has paid as a result of not making the higher CMP.

### **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.

Having looked at the evidence, I agree with the Investigator's view for broadly the same reasons and I've explained my reasons further below.

In the *"Information About Your Mortgage"* booklet provided with Mr B's Mortgage Offer, in respect of regular overpayments, it states *"If you have a repayment mortgage, overpayments will not automatically reduce your mortgage term. This is because whenever we recalculate your monthly payment, for example at an interest rate change, we set your new monthly payment so that it repays your loan over the term we originally agreed with you"*. It goes on to say *"You may want to make regular overpayments to pay off your loan sooner but don't want to ask us whether you can formally change the term of your mortgage agreement. If so, you will need to remember to review the amount of the monthly payment whenever we recalculate it and increase the amount of your regular overpayment"*. In respect of lump-sum overpayments, the booklet states *"You need to tell us if you want us to use the money to reduce the monthly payments by keeping the mortgage term the same. If you would like to permanently reduce the remaining term, you will need to speak to a qualified mortgage adviser, who will discuss your needs and circumstances with you"*.

The mortgage terms and conditions from the time Mr B took out the mortgage have a section titled *"When we can change your monthly payments"*, under which it gives examples of when Lloyds may need to adjust the CMP, including when the customer makes an overpayment.

Having reviewed the documentation provided to Mr B at the start of his mortgage, I am satisfied that any overpayments made would not automatically reduce the term and that this would always have required a formal application. Although the documentation set out that the CMP *may* be recalculated following an overpayment, this was not done in Mr B's case prior to 2023 and – as Mr B was on a fixed rate throughout this period – there were no interest changes which triggered any recalculation. Therefore, although the overpayments hadn't formally reduced the term, the fact that the CMP remained the same meant that the mortgage would be repaid sooner.

In June 2023, Lloyds introduced an annual review of the CMP going forward to ensure that this was on track. Whilst Mr B is unable to recall being told about this, Lloyds has provided evidence to show that it sent Mr B a letter in June 2023 setting this out and that, if a customer had made overpayments, then their CMP could go down. It also tells customers to check their next annual statement to see if their CMP would change.

In September 2023, Mr B was sent his annual statement, which confirmed that his CMP would change to £619.60 from October 2023. This was the first time his CMP had been recalculated. In September 2024, Lloyds sent Mr B his next annual statement, which confirmed that the CMP would reduce to £612.95 from October 2024.

Lloyds has noted that Mr B did not raise any concerns in relation to these reductions at the time. In response to the Investigator's view, Mr B says that there should be records of him having spoken to Lloyds from 2023 and confirmation that it would investigate the option of not reducing his CMP when making overpayments. Lloyds has provided contact notes and there is no record of this issue being raised in branch. In any event, for the reasons set out above, I am satisfied that Lloyds was entitled to amend its policy in respect of the annual recalculations and that it provided Mr B with notice of this.

When Mr B contacted Lloyds in January 2025 to discuss his overpayment and that he did not want his CMP to reduce, it was explained that the next annual recalculation was due in September 2025, which meant that the CMP would reduce at that point. If Mr B wanted to keep the same CMP, then he was advised that he would need to make an application to amend the term.

As set out above, the terms of the mortgage allowed Lloyds to adjust the CMP when an overpayment was made, even before the introduction of the annual recalculation. Therefore, the fact that Mr B's CMP was reduced is in line with those terms and I don't think Lloyds has acted unreasonably.

Whilst I can appreciate that Mr B was unhappy that he would have to spend time completing an I&E assessment, Mr B was informed correctly when he was told that reducing the term would involve going through a full application. Reducing the term would always have required a full application and affordability assessment, as this is a change to the mortgage agreement. So I am again satisfied that this was in line with the terms of the mortgage and that Lloyds has not made any errors or acted unreasonably in this respect.

Mr B still has the option of completing an application to make a formal term reduction. He is also able to make regular overpayments, however these would form part of the 10% overpayment allowance as agreed in the original offer.

Mr B has provided a screenshot from Lloyds which states "*Any overpayments you make won't automatically reduce your mortgage term or monthly payment unless you ask us to. If we need to work out new monthly payments for you, we'll take your overpayments into account and use your remaining mortgage term*". He says that this is confusing and misleading. Whilst I can appreciate Mr B's point of view, I can't agree that the screenshot is contrary to what Lloyds has done. It hasn't automatically reduced the CMP *as a result of* the overpayment (albeit the terms would allow it to do so). The CMP has only been reduced at the time of the annual recalculations introduced in 2023.

As set out above, Lloyds has offered to remove the account from the annual recalculation process until the end of the 10-year fixed term and revert the CMP back to what it was prior to the annual recalculation in September 2024. It has also allowed Mr B to pay the difference between what he actually paid and what his payments would have been had the CMP not been recalculated in September 2024, which would not form part of the 10% overpayment allowance. This has the effect of putting him back in the position he would have been in before the annual recalculation in September 2024 and also allowing him to continue making overpayments without any change to his CMP going forwards until 2029.

Given that I am satisfied that Lloyds has not made any errors in respect of the CMP or the term, and the mortgage has been operating in line with the agreed terms, I am satisfied that Lloyds' offer is fair and reasonable and I won't be asking it to do anything further.

Whilst I can appreciate the fact that Lloyds' failure to log Mr B's complaint properly in January 2025 led to some inconvenience for him in having to chase this up, in my view, Lloyds' offer of £40 in respect of this is fair to recognise the inconvenience caused to Mr B and I'm not going to ask it to increase this.

### **My final decision**

For the reasons I've explained above, I don't uphold this complaint and don't require Lloyds Bank PLC to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 9 March 2026.

Rachel Ellis  
**Ombudsman**