

The complaint

Mr and Mrs N complain that HSBC UK Bank Plc refused to switch the interest rate on their mortgage and treated them unfairly.

What happened

Mr and Mrs N have a residential mortgage with HSBC in three parts. The fixed interest rate on two parts of the mortgage came to an end in March 2023. Mr and Mrs N wanted to arrange a new fixed rate product before then so that they wouldn't have to pay interest at HSBC's standard variable rate (SVR).

They arranged an appointment with a HSBC adviser for late December 2022. HSBC then told them it wouldn't allow them to take a new interest rate product. Mr and Mrs N say it wouldn't tell them why this was, and they made a complaint.

HSBC sent Mr and Mrs N its final response to their complaint in January 2023. It said it wouldn't offer them a new rate on their mortgage.

Mr and Mrs N were still unhappy and continued to correspond with HSBC. HSBC sent Mr and Mrs N another final response in July 2024. It said it hadn't made a mistake but it would nevertheless allow them to take a new interest rate product and it would pay them £1,000 compensation.

Mr and Mrs N went ahead with a rate switch and took a new rate with effect from 1 September 2024. But they didn't accept the offer of compensation because it didn't address the significant financial loss and stress they said they had suffered because of paying interest at the SVR for 17 months. HSBC's position remained unchanged.

In January 2025 Mr and Mrs N referred their complaint to the Financial Ombudsman Service. HSBC said the complaint should be time-barred and, therefore, doesn't fall within the jurisdiction of our Service. Ultimately, my Ombudsman colleague decided that the complaint is not time-barred and that this Service can consider it. She passed it back to the Investigator to consider the merits.

The Investigator noted that HSBC had changed its stance in 2024 when it offered Mr and Mrs N the ability to switch their interest rate. He couldn't see any reason why HSBC couldn't have offered a new interest rate in 2023, when their previous product ended. He thought HSBC's offer to pay Mr and Mrs N £1,000 compensation of the impact of its error was fair. But he recommended that it also backdate a fixed interest rate on Mr and Mrs N's mortgage to February 2023.

Mr and Mrs N said they were willing to accept the Investigator's recommendations, on the basis that HSBC does the same. But, if it didn't, they asked that the amount of compensation be reviewed in light of the impact this matter has had on them.

HSBC didn't accept the Investigator's recommendations. It said that it wasn't possible for Mr and Mrs N to change their interest rate sooner than they did because this is only now

possible due to a recent policy change.

As a resolution couldn't be reached, the complaint has come to me for a decision. I reached the same overall outcome as the Investigator but my view on how things should be put right is different. So, I issued a provisional decision to give both parties the opportunity to comment before I make a final decision.

My provisional decision

I said:

"I think the first question in this case that needs to be considered is: was it fair for HSBC to refuse to switch the interest rate on Mr and Mrs N's mortgage? It might be fair for HSBC to do that in some circumstances. There isn't usually anything in a mortgage contract that requires a lender to offer new promotional products, such as a fixed or tracker rate, when the existing one ends, for example. And so, the mortgage moving onto HSBC's SVR would be it continuing on the same terms that were agreed. However, while HSBC initially refused a rate switch, it later changed its mind and agreed to one. So, I need to consider why that was and why HSBC didn't make this decision in the first place.

We have asked HSBC why it changed its position regarding allowing a rate switch on Mr and Mrs N's mortgage. But the information it's provided around this is limited. From the information that is available, it seems to me that it didn't consider Mr and Mrs N's case fully (at least not to the extent it later did) before giving its initial answer to refuse a rate switch. I say this because when it considered the matter again around a year and a half later, it agreed to offer Mr and Mrs N a rate switch and nothing that it would have known or could have considered initially appears to have changed. In the individual circumstances of this case and based on the available evidence, my provisional view is that HSBC didn't fully and fairly consider Mr and Mrs N's initial rate switch request. And, if it had, I consider Mr and Mrs N would have been able to switch their interest rate to start from 1 March 2023.

Because Mr and Mrs N were unable to switch their interest rate, their mortgage moved to HSBC's SVR and their monthly payments increased significantly. Having listened to a phone call between Mr N and HSBC in December 2022, I note that Mr and Mrs N were looking to take out a two-year tracker rate. So, I think the fairest way to put things right is for HSBC to apply and backdate the two-year tracker rate that was available to Mr and Mrs N at that time. If there was more than one tracker rate available (for example, one with a product fee and one without) it should give Mr and Mrs N a choice of those products. Where Mr and Mrs N have paid more interest as a result, those overpayments should be refunded to them, along with 8% simple annual interest, from the date they made their payments to the date of settlement. The product fee should be deducted from any refund, if Mr and Mrs N choose that option.

As Mr and Mrs N were looking to take out a two-year tracker rate to apply from when their existing product ended, by now that tracker rate would have ended. And I note that they currently have a fixed rate which was put in place in 2024 – before the tracker rate would have ended. It appears, having listened to the phone call between HSBC and Mr N in December 2022, that the tracker rate wouldn't have had any early repayment charges should Mr and Mrs N have ended it early. Because of that, it's difficult to say with certainty what Mr and Mrs N would have done. They might still have decided to take out a fixed rate in 2024 for example but, equally, they might not.

In all the circumstances, I think HSBC should give Mr and Mrs N the choice of their

existing fixed rate remaining in place from September 2024 onwards, or for the tracker rate to have continued until its end date. If they choose for the tracker to apply until its end date (which I assume would have been at some point in 2025), HSBC should also give them the option to choose an interest rate product from those available at the time the tracker rate would have ended. It should then apply and backdate that interest rate in place of the current fixed rate. If Mr and Mrs N have then paid more interest on the 2024 fixed rate against what they would have paid had they taken out another product when the tracker rate ended – for the period up until the new rate is applied – HSBC should refund those overpayments. It should also calculate and pay them 8% simple annual interest on that refund; from the date they made their payments to the date of settlement. In calculating any refund, it should also take into account any product fee on the fixed rate they took in 2024 and any product fee on the rate they choose instead.

I appreciate redressing the matter in the proposed way gives Mr and Mrs N the benefit of hindsight – something they wouldn't have had but for the rate switch issue. However, as I can't safely conclude what would have happened, I provisionally consider giving these options is the fairest way to resolve this matter in this individual case.

I was sorry to hear about the impact this matter has had on Mr and Mrs N financially, personally and emotionally. I'm persuaded what's happened has caused substantial distress, upset and worry to Mr and Mrs N, over a lengthy period. I've thought carefully about this, alongside our published guidance¹ around compensation for distress and inconvenience. And, while I appreciate Mr and Mrs N feel it should be more, I consider HSBC's offer to pay them £1,000 fairly recognises the distress and inconvenience caused. I don't consider I can fairly require HSBC to increase its offer of compensation for the impact of what's happened.

Putting things right

I provisionally require HSBC to take the following steps to put things right:

- It should confirm which two-year tracker interest rate products were available to Mr and Mrs N in December 2022 (when Mr and Mrs N had an appointment to change their interest rate). If there's more than one two-year tracker product that was available, it should allow Mr and Mrs N to choose which product they'd like to take.
- It should apply and backdate the chosen tracker product to the two relevant parts of Mr and Mrs N's mortgage from the point their previous fixed rate ended on 28 February 2023. And, where Mr and Mrs N have overpaid interest as a result, it should refund those overpayments to Mr and Mrs N along with 8% simple annual interest, from the date they made the payments to the date of settlement, offsetting any product fee from the amount to be refunded.
- HSBC should then give Mr and Mrs N the choice of their existing fixed rate applying from September 2024 until its end date (option 1), or for the tracker rate to have continued until its end date (option 2).
 - If they choose option 1; the fixed rate will remain in place until it's due to end.

¹ See: <https://www.financial-ombudsman.org.uk/consumers/expect/compensation-for-distress-or-inconvenience>

- If they choose option 2; HSBC should give Mr and Mrs N the option to choose an interest rate product from those available at the time the tracker rate would have ended. It should then backdate and apply that interest rate in place of the current fixed rate, without applying an early repayment charge for ending the existing fixed rate early.

If Mr and Mrs N have paid more interest on the 2024 fixed rate against what they would have paid had they taken out another product when the tracker rate ended – for the period up until the new rate is applied – HSBC should refund those overpayments. It should also calculate and pay them 8% simple annual interest on that refund; from the date they made their payments to the date of settlement. If there was a product fee in 2024, that should also be refunded, or removed from the mortgage balance if not paid up front. And if the replacement rate includes a product fee, the fee can be offset against any refund of overpayments.

- HSBC should also pay Mr and Mrs N £1,000 the compensation it has offered, if it hasn't already done so."

Mr and Mrs N accepted my provisional decision. HSBC did not respond within the deadline, despite a reminder.

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.

As Mr and Mrs N have accepted my provisional decision and HSBC did not reply, I see no reason to depart from my provisional findings.

My final decision

My final decision is that HSBC UK Bank Plc should put things right by taking the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N and Mrs N to accept or reject my decision before 10 April 2026.

Keith Barnes
Ombudsman