Financial Ombudsman Service

complaint

This complaint is about a mortgage Mr E holds with Bank of Scotland plc trading as Halifax. Mr E complains that he was wrongly advised to take a mortgage with a ten-year fixed rate.

background

Mr E took out the mortgage – his first – in 2008. It was an advised sale; that is, one where Halifax's mortgage arranger recommended the mortgage as being suitable for him. The mortgage was on a capital repayment basis, repayable over twenty years, with the interest rate fixed for the first ten years. During the period of the fixed rate, Mr E was allowed to make additional lump sum capital reductions of up to 10% of the outstanding balance in any one year. If he reduced the balance by more than that, or repaid the mortgage in full, an early repayment charge would be payable.

In 2013, Mr E complained. He said the mortgage term had been extended to 25 years by mistake. He also complained that the ten-year fixed rate was unsuitable for him. He says that he was offered the option of a shorter fixed rate period, and that Halifax staff were aware of the impending recession and should have realised interest rates generally were about to fall.

Halifax settled the complaint as it related to the extension of the repayment period, but the complaint about the ten year fixed rate was referred to us. The adjudicator who considered the complaint was not persuaded it should be upheld. Mr E did not agree, and so the complaint has come to me to review and determine.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

Borrowers who choose a fixed rate are, in effect, taking a gamble that the rate they pay might be either lower or higher than the lender's variable rate from time to time. In exchange, they benefit from the stability of knowing how much they will pay during the period the rate is fixed. Halifax has run Mr E's mortgage account in accordance with the agreement he entered into with it in 2008. In return, Mr E has benefited from the afore-mentioned stability, and has made monthly payments that are broadly consistent with the budget he apparently told Halifax he was aiming for at the point of sale.

There is no suggestion here that Halifax has charged a rate that is higher than the agreement between it and Mr E allows it to. It seems to me that Mr E is unhappy because for almost the entire period, Mr E would have incurred less interest if he had been on the standard variable rate. Mr E says the bank should have foreseen the dramatic fall in interest rates that occurred soon after he took the mortgage out.

I understand why Mr E might think that, but the reality is rather different. The events of 2008 that led to a global financial crisis – and the reduction in interest rates mentioned earlier – took most financial services providers (and indeed most governments) by surprise. In that context, I do not believe I could fairly conclude that Halifax was at fault in recommending Mr E take out a fixed rate mortgage when it did.

As far as the duration of the fixed rate is concerned, I note Mr E says he was not offered a shorter fixed rate. That may be so, but equally he does not contend that he *asked* for a shorter fixed rate period that the one he was offered and accepted. The terms of the mortgage, including the duration of the fixed rate and the bank's right to levy an early repayment charge during the fixed rate period, were set out in the mortgage offer, which Mr E accepted. Whilst the mortgage was recommended by Halifax, it was nonetheless open to Mr E to ask the bank about alternative products if he did not consider its recommendation best met his needs.

Mr E says that, the bank should have recognised that, being from an Asian culture, he would wish to repay the debt as soon as possible. The terms of the mortgage do allow the mortgage to be repaid more quickly than scheduled, and Mr E has availed himself of that provision by making periodic lump sum reductions. However, Mr E has not taken full advantage of the facility allowing him to repay a maximum of 10% of the outstanding balance every year. In other words, Mr E could, under the terms of the mortgage, have reduced his outstanding balance by more than he has. In the circumstances, I cannot fairly conclude that the choice of mortgage product has denied Mr E the opportunity to reduce his mortgage debt further than he has already done.

my final decision

My final decision, for the reasons set out, is that I do not uphold this complaint, and make no order or award against Bank of Scotland plc trading as Halifax.

Jeff Parrington
ombudsman