

The complaint

Mr B complains that Lloyds Bank PLC (Lloyds) converted the basis of his mortgage from interest only to repayment; that it has increased the contractual monthly payment (CMP); and that he is not receiving the benefit of his Offset facility.

What happened

Mr B took out an offset mortgage with Lloyds in 2008 over 20 years. He had four current accounts linked to it, meaning that the credit balances would be used to reduce the amount of interest charged to his mortgage balance.

Lloyds say the way it works is that Mr B didn't receive interest on the credit balances in the linked accounts, because interest was then not paid on the portion of his mortgage covered by the linked account balances.

Mr B made some large payments to his account but when his monthly payments didn't reduce he complained to Lloyds as he thought that there may be an error on their part. Lloyds investigated but said that his account had been managed in accordance with the terms and conditions and didn't accept it had made any errors or mistakes.

Mr B was unhappy with Lloyds' final response and so approached this service to see if we could assist in resolving the dispute. Our investigator thought that Lloyds hadn't done anything wrong and had dealt with the complaint fairly. Mr B didn't agree and asked for the complaint to be passed to an Ombudsman for a final decision.

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 shall deal first with the Mr B's complaint that our investigator hasn't addressed his complaint that it is difficult to move money around easily between his accounts, and that this is contrary to the agreement he had with Lloyds. This isn't a complaint Mr B has raised with Lloyds and as such Lloyds have not had the opportunity to respond to it. I am therefore unable to deal it, although I do note, and repeat, the comments our investigator made regarding the remit of this service. It's not our role to recommend how financial businesses should conduct or arrange their commercial operations and processes – that's for them to determine. We don't have the power to make rules for financial businesses, assess or direct that they change their policy or procedures. We only look at what happened in the circumstances of the individual complaint and check they followed their rules and procedures and have applied them fairly.

Secondly I must also confirm that there are limitations to my role, in that I am unable to audit Mr B's accounts. I take account of both sides' views, consider the available evidence, and give an informal opinion on whether Lloyds have acted fairly and reasonably. This reflects the nature of our service as an informal alternative to proceeding through the courts.

Mr B's mortgage offer shows that his mortgage is on an interest only basis. His annual mortgage statement also confirms that. I can see no evidence which would show that without Mr B's consent Lloyds unilaterally changed his mortgage to that of repayment rather than interest only. I can accept that Mr B may perceive or interpret it to be that way, but legally, from my reading of the documentation provided, it remains an interest only mortgage.

In my view, I think Mr B has probably misunderstood how the offset mortgage works. The terms and conditions of the mortgage account provide that the CMP is calculated on the full balance of the mortgage and does not take into account the balances on any linked accounts. That is what he is contracted to pay every month, albeit it may change if the overall balance reduced.

However, what is actually charged to Mr B's mortgage account in interest each month, does take into account his linked account balances. This means if his CMP payment is higher than the interest added to the mortgage account, the amount of the CMP payment which exceeds that added monthly interest, is used to reduce the mortgage account balance. Lloyds have supplied an extract from the terms and conditions for the mortgage (paragraph 5.2) and I am satisfied this explanation is correct.

As I have said I have not carried out an audit since that is beyond my remit, but from the account documentation provided by Lloyds, I can't agree that Lloyds have mismanaged Mr B's account, and in fact they have operated it in accordance with the terms and conditions. The interest rate did of course increase when the Bank of England Base rate went up, which had an impact on the calculation of the CMP. I therefore do not agree that Mr B has not received the benefit of the offset facility as his overall balance has reduced.

So, although Mr B will probably be disappointed with my decision, I can't say Lloyds has acted unfairly or unreasonably here and I'm not upholding this complaint.

My final decision

For the reasons set out above I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 9 January 2024.

Jonathan Willis
Ombudsman