

The complaint

Mr P complains that his mortgage lender, Mortgage Express, has unfairly increased the interest rate on his mortgage. His representative says he's been taken advantage of because he's unable to move his mortgage elsewhere.

What happened

Mr P took out a mortgage with a lender called GMAC-RFC in July 2006. He borrowed around £400,000 over a 20 year term, on interest only terms. The mortgage offer said that the standard variable rate (SVR) would apply from the start of the term, but with a discount of 1.2% until 30 September 2008. This means Mr P was charged a variable rate. At the time Mr P took the mortgage out the SVR was 6.49%, meaning that his initial interest rate after the discount was 5.29%.

Mr P's mortgage was transferred from GMAC to Mortgage Express, as part of a wider transfer of business, in August 2006.

In March 2008, Mr P borrowed a further £60,000 – this lending was offered at a variable rate for the whole term starting at 7.25%. And in July 2008 he borrowed a further £78,000 at a variable rate of 7%. In both cases, the additional borrowing was on interest only terms, with the term expiring at the same time as the initial mortgage borrowing. And in both cases the lending was with Mortgage Express as the owner of the mortgage at the time.

At the time Mortgage Express was a wholly owned subsidiary of Bradford & Bingley (B&B). During the global financial crisis of 2007 – 2009, B&B collapsed and was taken into government ownership. Mortgage Express remained a separate firm owned by the nationalised B&B.

Mr P's representative complained to Mortgage Express in 2021, saying:

- Mortgage Express doesn't offer new interest rates to existing customers, and Mr P was unable to move his mortgage elsewhere. Mr P had a reasonable expectation that he would be able to take a new interest rate on the expiry of his existing one, but Mortgage Express failed to make one available.
- As a result Mr P had to remain on Mortgage Express's SVR – he had no other option. Mortgage Express did not take that into account in setting the level of interest it charged.
- Mortgage Express's SVR has been consistently high, even at a time of low interest rates and when the Bank of England base rate was 0.5% or less. The SVR is excessive in comparison with other lenders in the market.
- The level of the SVR, and increases to it, were not justified by the terms of the mortgage contract – either the explicit terms, or an implied term that the SVR would not be varied arbitrarily, unreasonably, improperly, or dishonestly.

- As a result, Mortgage Express treated Mr P unfairly and took advantage of his situation. The interest rate should be reduced to a fair rate and overpayments above that should be refunded to Mr P. Mr P believes this should be the Bank of England base rate plus 1.5%. Mr P believes that it was Mortgage Express's previously stated policy to set its SVR at around 1.5% above base rate.

Mortgage Express didn't agree. It said:

- It had not acted in breach of the mortgage terms and conditions – either an explicit term or an implied term (and it did not accept that there was an implied term in any case).
- There was no expectation that the SVR would track base rate, by 1.5% or at all. When Mortgage Express had varied the SVR it had done so for good reasons as permitted by the terms and conditions. Doing so was not unfair and did not amount to taking advantage of Mr P.
- Mr P could not have had a reasonable expectation of a new interest rate at the end of his discount rate. The mortgage offer was clear that it would revert to the SVR without a discount after 30 September 2008 and that is what happened. Mortgage Express does not offer new interest rates to any customers, but it did not put any barriers in the way of Mr P moving his mortgage to a new lender to get a better rate.

Our investigator reviewed the complaint and didn't uphold it, so Mr P's representative asked for an ombudsman to make 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.

The rules of the Financial Ombudsman Service provide that complaints have to be made within six years of the date of the event complained about – or, if it gives more time to complain, within three years of when the complainant knew or ought reasonably to have known of cause for complaint. Unless there's a record of an earlier complaint we can't consider a complaint made outside those timescales. We can consider an out of time complaint if the firm complained about consents – but Mortgage Express doesn't consent – or if there are exceptional circumstances that prevented a complaint being made in time. Mr P's representative hasn't suggested there were any such circumstances.

Applying the time limit rules to this case, I note that Mr P first complained to Mortgage Express on 7 September 2021. His complaint is primarily about two things – the ongoing failure to offer a new interest rate, and the fairness of the interest rate he was actually charged.

Each time he is charged interest, Mortgage Express has an obligation to do so lawfully and fairly. And if it doesn't, that gives rise to fresh cause for complaint each time interest is charged. That means that we can consider the fairness of each interest charging event for six years before Mr P complained. I don't think we can go back further than that under the three year part of the rule, though. That's because Mr P knew what interest rate he was being charged from time to time, because Mortgage Express told him that regularly in letters and statements. He would have known that the interest rate was higher than he was expecting and that it did not reduce as far as base rate fell – as he was expecting. That's enough to have told him he had cause for complaint.

Mr P says that he didn't become aware of cause for complaint until he saw media coverage of mortgage interest rates in 2019. And it wasn't until he sought legal advice after that that he became aware of the full complaint he's now made. I've taken this into account. But I don't think it gives Mr P more time to complain. The three year rule isn't just about when Mr P actually knew of cause for complaint, it's also about when he ought reasonably to have known. Knowledge of cause for complaint doesn't require detailed knowledge of all the arguments that could be made – it's enough to know that something might have gone wrong, for which Mortgage Express is responsible, and which has caused loss. I'm satisfied that Mr P knew or ought to have known the interest he was being charged at the time he was charged it, or shortly thereafter. His complaint is that the interest rate was unfairly high, including by reference to the Bank of England base rate, and that caused him difficulties. I think he would have known that at the time, and so ought reasonably to have known of cause for complaint.

The same is true of the ongoing failure to offer a new interest rate. Mr P would have known he was on the SVR and that Mortgage Express hadn't offered him a new rate – as he says he expected it would. That was enough to tell him he had cause for complaint about that. And so we can only consider the failure to offer a new rate for the six years leading up to the complaint.

In both cases, therefore, I will only be considering the fairness of Mortgage Express's actions since 7 September 2015.

In considering the fairness of the interest rate charged, it will be necessary to consider the whole history of the interest rate – since earlier variations to the SVR made before the six year period may still be relevant to the interest rate charged during the six year period. As such, they form part of all the circumstances of the complaint about the fairness of interest charged in the last six years.

Offering a new interest rate

Mr P's representative has complained that Mortgage Express didn't offer him any new interest rates, either when his discount rate ended or later.

Mortgage Express didn't offer interest rates to any existing customers, so I don't think Mr P was treated less favourably than other Mortgage Express customers. I don't think it was unfair that Mortgage Express didn't offer him a new interest rate after 7 September 2015. There's nothing in either the mortgage terms and conditions or the mortgage offer that says it would do so. The mortgage offer makes clear that the mortgage would be charged at the SVR after the end of the discount rate period.

It's true that many mortgage lenders do offer new interest rates to existing customers – but not all do. There's no obligation, either in the rules of mortgage regulation, in law, or in the terms of Mr P's mortgage that Mortgage Express would do so in his case. But Mortgage Express didn't stand in Mr P's way or prevent him from shopping around and moving his mortgage to another lender to access a better deal – there was only an early repayment charge applicable up to the end of his discount rate, for example, so it didn't apply after 7 September 2015.

I don't therefore uphold this part of Mr P's complaint. I'll turn now to the fairness of the interest rate Mr P was charged.

The fairness of the interest rate charged after 7 September 2015

Mr P's mortgage was subject to the SVR – initially with a discount – throughout its life. The

SVR increased in 2006 and 2007, peaking at 7.75%. It was 7.5% when the discount ended on 1 January 2008. Thereafter the SVR reduced, though not as fast as reductions in the Bank of England base rate. By December 2008 the SVR had fallen to 4.84%. It remained at that level until 2016. Between 2016 and when Mr P redeemed the mortgage in 2019 the SVR varied at the same time, and by the same amount, as the Bank of England base rate.

In changing the interest rate from time to time, Mortgage Express was limited in its actions by the terms of the mortgage contract. In respect of the initial mortgage, the terms and conditions are the ones entered into by GMAC – they remained in force and applicable after the transfer. There's a term which says that the lender (GMAC, then Mortgage Express) could only vary the interest rate in certain circumstances:

3.1 If the *interest rate* is the *standard variable rate* we may vary it for any of the following reasons:

(a) to reflect a change which has occurred, or which we reasonably expect to occur, in the *Bank of England base rate* or *interest rates* generally;

(b) to reflect a change which has occurred, or which we reasonably expect to occur, in the cost of the funds we use in our mortgage lending business;

(c) to reflect a change which has occurred, or which we reasonably expect to occur, in the interest rates charged by other mortgage lenders;

(d) to reflect a change in the law or a decision by a court; or

(e) to reflect a decision or recommendation by an ombudsman, regulator or similar body.

The further borrowing is on different terms and conditions, as by then the lender was Mortgage Express not GMAC. The Mortgage Express terms and conditions say:

We may reduce the interest rate at any time.

We may increase the interest rate at any time for any one or more of the following reasons:

- *To reflect changes which have occurred, or which we reasonably think are about to occur, in the rates of interest which other financial institutions charge for mortgages on residential property; To reflect a change which has occurred, or which we reasonably think is about to occur, in the cost of the funds we use in our lending business (e.g. an increase in bank base rate);*
- *To enable us to set the interest rate we pay to any savers at a level which will attract or keep business;*
- *To make sure we remain financially stable and continue to meet the requirements of our regulators;*
- *To enable us to bring the interest rates we charge our borrowers in line with those charged by any other financial institution whose business we take over;*
- *To provide for our business being transferred to another company;*

- *To reflect a change which has been made (or is about to be made) in the law, regulatory requirements or any relevant code of practice;*
- *To reflect a decision by a court;*
- *To reflect a decision, recommendation or guidance by an ombudsman, regulator or similar body;*
- *To reflect changes in the costs of managing your mortgage account (including changes caused by developments in the technology we use);*
- *To reflect a change in the way the property is used or occupied; and/or*
- *To make sure we can meet any obligations to third parties which we have accepted while acting reasonably in the ordinary course of our business.*

...

Except during a period when an early repayment charge applies, we may also increase the interest rate at any time for any valid reason. We will also give you notice of the increase at the earliest opportunity.

We will make sure that the extent of any increase is no greater than is justified by our reason for making that increase.

Mr P's representative says that there should also be an implied term that Mortgage Express shouldn't exercise its power to vary the interest rate arbitrarily, improperly, unreasonably, or dishonestly. That's really a question of contract law, but I don't think it's something I need to decide for the purposes of this complaint – since I don't think it adds anything substantial to the central question I need to consider. That's whether it acted fairly in setting the rate during the period I can consider. Deciding that question includes consideration of the circumstances in which it used condition 3.1 to vary the interest rate. If Mortgage Express did exercise its contractual power arbitrarily, improperly, unreasonably, or dishonestly, it would follow that it wasn't acting fairly whether or not there was an implied term to that effect.

Mr P's representative hasn't specifically argued that condition 3.1 is an unfair term within the meaning of the Unfair Terms in Consumer Contracts Regulations, though this is something I've considered too as it's relevant law for me to take into account. Having done so, I think the Mortgage Express term in particular – which allows it to vary the interest rate for any reason if there is no early repayment charge – is very broad and gives Mortgage Express a wide discretion without making clear how it would be exercised. But while I've taken into account the law, in deciding what's fair and reasonable in all the circumstances in respect of interest charged after 7 September 2015, I think the central question for me is whether Mortgage Express acted fairly in setting the rate during that period – which includes taking account of the way Mortgage Express made use of both sets of terms and conditions.

During the period that's in time, the interest rate was varied only to reflect changes to the Bank of England base rate. That's something explicitly allowed for in the terms and conditions, and I note it's been said that this is something Mr P expected would happen. I don't think the variations to the SVR between 2016 and September 2021, when Mr P complained, were unfair.

I've also thought about whether the SVR was set at a fair level at the start of the period that's in time. And to consider that I've thought about the historic variations to the SVR, which – from the starting point of when Mr P took the mortgage out – cumulatively led up to the rate

he was charged from 7 September 2015 onwards. That's because if one of those earlier changes was not made in accordance with the contract, for example, it might not be fair to charge an interest rate from 7 September 2015 which relied – in part – on that earlier variation.

I've also noted that while the two further borrowing sub-accounts were initially on separate variable rates, the annual statements show that both variable rates were reduced shortly after Mr P took out the further borrowing, and by 1 January 2009 all three parts of his mortgage were charged the SVR – which by then had reduced to 4.84%. Although the SVR increased during the early part of the mortgage, it then reduced and from December 2008 was set at 4.84%, remaining at that level up to the start of the period that I can consider, from 7 September 2015.

In making the changes to the SVR and variable rates it made from when the mortgage was taken out to when all three rates reached 4.84% in late 2008 – after which there were no further changes before 7 September 2015 – Mortgage Express has told us that it relied on the terms and conditions allowing it to make changes to reflect changes to its cost of funding.

Mortgage Express has given us detailed information about the cost of funding its mortgage lending business. I'm satisfied it's appropriate to receive that information in confidence, as permitted by our rules, subject to providing a summary of it.

In summary, the information shows that Mortgage Express was funded by its parent company, B&B, in the form of loan facilities. B&B in turn, before its collapse and nationalisation, raised funding on the wholesale markets.

Wholesale market funding costs are generally driven by or related to the LIBOR rate, not the Bank of England base rate. Prior to the financial crisis, LIBOR and base rate were broadly comparable. But during the financial crisis base rate was reduced substantially as a tool of wider macro-economic policy, whereas the cost of wholesale funding also reduced but not to the same extent. The result was that there was a greater divergence between base rate and LIBOR during this period.

That divergence was reflected in the fact that across the industry – not just in respect of Mortgage Express – lenders' SVR rates reduced (reflecting the reductions in LIBOR) but not by as much as base rate (reflecting the disconnect between the two). In other words, the margins between base rate and SVRs increased at this time. I'm aware that this was the case from my knowledge of other complaints and my knowledge of the mortgage industry, supported by contemporary and later reports of market conditions.

Following B&B's collapse, it was less exposed to movements in the wholesale markets and became primarily government funded. There were certain conditions and costs associated with its government funding – which in turn influenced the funding it, as the parent company, was able to provide to Mortgage Express.

Having considered all this information, I'm satisfied that when Mortgage Express made changes to the SVR between 2006 and 2008, it did so relying on condition 3.1. I'm further satisfied that it was entitled to rely on condition 3.1 at this time. In particular, it was entitled to rely on condition 3.1 (b) when reducing the SVR but increasing the margin over base rate, because the cost of funding its mortgage lending business was in fact changing, and the changes to the SVR reflected the changes to the cost of funding its mortgage lending business. It's true that Mortgage Express ceased to be an active mortgage lender, seeking out new business. But it still operated a mortgage lending business in respect of its existing loan book, which included Mr P's mortgage.

The same is true of the changes Mortgage Express made to the variable rate on the two tranches of further borrowing between when Mr P took them out in 2008 and when they harmonised with the SVR by January 2009. During this period the variable rates reduced – so while the variation term in Mortgage Express’s conditions is very broad it was operated in Mr P’s favour. And while the variable rates didn’t reduce by as much as base rate reduced, the reductions reflected reductions in Mortgage Express’s cost of funds.

Mr P’s representative says that Mortgage Express had a policy, and Mr P had a reasonable expectation, that its SVR would be kept at around 1.5% above base rate – and by increasing the margin it therefore acted unfairly. I’ve seen no evidence that there was such a policy, or that if so it included Mr P’s mortgage. The archived website Mr P’s representative refers to simply says that Mortgage Express’s variable rate products are set at around 1.5% above base rate. It’s not clear that this is referring to the SVR – as opposed, for example, to its base rate tracker rates – and if it is, this is at best a general statement of Mortgage Express’s aspirations around the time it made the statement. It’s not a binding contractual commitment to Mr P.

This statement was also made before the financial crisis – which, as I’ve said, led to a dislocation between base rate and the cost of funding mortgage lending. And so even if it was a statement of Mortgage Express’s general aspirations in managing its SVR – which I haven’t found to be the case – that doesn’t mean that in the very different conditions of the financial crisis and its aftermath Mortgage Express is barred from making changes to its SVR merely because they contradict something it said – non-contractually – in the years before the crisis.

There’s no such linkage between the SVR and base rate in Mr P’s mortgage offer or terms and conditions, and I’ve not seen any evidence that GMAC led Mr P to believe that his specific mortgage would behave in that way before he took it out. And of course Mr P cannot have relied on this statement in making the decision to take out his mortgage, since he took it out with GMAC not Mortgage Express. I don’t think it would be reasonable to conclude that a general statement of how Mortgage Express managed its rates at a particular moment in time, a statement that was not in the contemplation of either GMAC or Mr P when the mortgage was taken out and which it is not clear was even referring to the SVR, binds its hands forever even if it was referring to the SVR.

I don’t therefore think this online statement is of any particular weight in considering whether Mortgage Express acted in line with the terms and conditions of Mr P’s mortgage when it varied the interest rate. And it’s not of any particular weight in considering whether the interest rate from 7 September 2015 was fair and reasonable in all the circumstances.

It’s also important to note that the terms and conditions of both the mortgage and the further borrowing give Mortgage Express the power to vary the interest rate, but don’t create an obligation to do so.

Finally, Mr P’s representatives say that there was a special responsibility on Mortgage Express not to take advantage of Mr P because he was unable to shop around and had no option but to remain with Mortgage Express. I’m satisfied that Mortgage Express acted in line with the terms and conditions of Mr P’s mortgage and didn’t treat him less favourably than any other borrower. I don’t think Mortgage Express’s SVR is significantly higher than that of other lenders, whether active or closed. I’m not persuaded that it unfairly took advantage of him.

Taking all that into account, I’m satisfied that Mortgage Express acted in accordance with the terms and conditions in varying the SVR in the way that it did. And there is no other basis on which I can safely conclude that the interest rate charged to Mr P from 7 September 2015

onwards was unfair.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 29 December 2023.

Simon Pugh
Ombudsman