

The complaint

Mr M complained that he paid a large lump sum into his mortgage offset savings account with Yorkshire Building Society trading as Chelsea Building Society, but it didn't reduce his monthly mortgage payments right away. Mr M said this breached the terms of his mortgage.

What happened

On 20 October 2022, Mr M paid £25,000 into his offset mortgage savings account with Chelsea. That offset amount represented more than a quarter of what Mr M owed on his mortgage at the time. So Mr M said he expected his monthly mortgage payments to be reduced, with immediate effect. But his November payment was unchanged. Mr M said he contacted the call centre, but that didn't change things, so he complained.

Mr M said he wanted Chelsea to backdate his payment, so it took effect from 20 October 2022, and he wanted Chelsea to refund the interest he'd overpaid on his monthly payments since then. He also wanted it to pay compensation for the distress and inconvenience this had caused him. But he said that by February 2023, Chelsea was still charging him the same amount each month. His payments weren't reduced until March 2023.

Chelsea didn't think it had made a mistake over Mr M's payments. It said it only recalculates the monthly mortgage payment on Mr M's account once a year, unless there are events on the account that dictate otherwise, or unless Mr M asks it to recalculate. And Chelsea said Mr M would be aware of this, because he'd made an overpayment in 2017, and made the same complaint then when his mortgage payments weren't reworked right away.

Mr M had asked for his payment to be taken into account from 20 October 2022, and Chelsea said it would do that for him. But it said it had already completed the annual review process on his mortgage, so he'd shortly be receiving a new mortgage statement, with a new monthly payment for the year ahead.

Chelsea said it did accept it had caused some inconvenience when Mr M called to complain, because his call was cut off. So it paid him £25 to say sorry for that.

Our investigator didn't think this complaint should be upheld. She said Chelsea's "*Guide to your Offset Options*" set out that Mr M would have to contact Chelsea, if he wanted his monthly repayments recalculated right away. So she didn't think Chelsea made a mistake when it didn't adjust the mortgage repayment immediately. And our investigator noted that Mr M was told the same in 2017, when he made an overpayment then.

Our investigator thought Chelsea was waiting to hear if Mr M wanted it to backdate the interest for the offset payment made on 20 October 2022. It had since confirmed this had been actioned, and it owed Mr M £14.76. It would send Mr M a cheque. She didn't think Chelsea had to do any more.

Mr M disagreed. He said the document our investigator sent, titled "*A Guide to Your Offset Options*" was produced in January 2020. Mr M said he'd never seen this before. He took his mortgage out in 2012, and said we ought to consider the document he was given then, titled

"How your mortgage works". He said this document set out that to operate a mortgage with lower monthly payments, he needed to register a net payment. And Mr M said he registered a net payment in October 2022, when he paid £25,000 into his offset savings. Mr M said the payment he made should have reduced his monthly payments from November 2022. He said there was nothing in the literature he was given in July 2012 to say he had to tell Chelsea he'd made a payment and to ask for a recalculation.

Mr M said the 2012 documentation also said that a large payment into his savings account was a *"recalculation event"* as set out in those terms, and ought to have automatically triggered a reworking of his monthly payments.

Mr M said Chelsea had offered *"to backdate the interest against your mortgage account to reflect the payment made to your Offset savings account on 20 October 2022 and recalculate your monthly payment."* But he said it didn't recalculate his payments, or pay back the interest he felt he'd been overcharged since.

Mr M said that if Chelsea did this backdating and recalculation, it would certainly owe him considerably more than the £14.76 which it had offered, and he set out his workings for what he thought Chelsea owed him. Mr M wanted Chelsea to send through its calculations to our service, and he then wanted us to check them for him. Mr M also still thought he should be paid compensation, for the trouble he'd been put to in making this complaint.

This case then came to me for a final decision. And I then reached my provisional decision on this case.

My provisional decision

I issued a provisional decision on this complaint and explained why I did not propose to uphold it. This is what I said then:

I've reached the same overall conclusion on this complaint, but for slightly different reasons to our investigator. Because of that, this decision will be provisional, and I'll give both sides a chance to comment before I make a final decision.

I think it might help if I summarise the arguments of both sides at the outset. So, in summary, Mr M says when he makes a payment into his offset savings account, Chelsea should start offsetting that payment against his mortgage straight away, and he should be able to see the effect of this right away, with a reduction in his monthly payments. He thinks that should all be done as one action, and without him needing to contact Chelsea about this.

But Chelsea says it's not one action. It's two. Chelsea has told us it does start offsetting Mr M's payment against his mortgage right away. But because of how Chelsea works out payments, averaging them over a year, that won't start to show in Mr M's monthly payments until later. If Mr M wants this to happen faster, he has to ask Chelsea to recalculate his monthly payments.

I'll now explain my findings in detail.

When Mr M wrote to disagree with our investigator's view, he said he had never seen the document she sent him, titled *"A Guide To Your Offset Options"*. So he didn't think our service should take that into account, in resolving his complaint.

Chelsea has sent our service Mr M's original 2012 mortgage offer. I can see that offer makes a number of references to what does appear to be the same document, *"A Guide*

to *Your Offset Options*". And the 2012 offer stresses the importance of reading this alongside the document Mr M did quote, "*How Your Mortgage Works*".

So I think the guide to offset options document does apply to Mr M. And I haven't seen anything to make me think the document Chelsea sent us recently, which was printed in 2020, differs in any material way from the document Chelsea says it sent to Mr M with his mortgage.

If Mr M didn't receive that guide to offset options in 2012, then, given the references to this in the offer produced then, I would have expected him to raise this matter with Chelsea at that time. I don't think that would be a reason to disapply the provisions of this document now.

Mr M referred to a number of provisions in the document he accepts he did receive when his mortgage was taken out, titled "*How Your Mortgage Works*". His argument is that by paying in a deposit into his offset savings account, he has registered a net payment. And he says this payment should have triggered a "*Repayment event*" as later defined in those same terms.

I'm sorry to tell Mr M that I don't agree with him. I'll explain why not.

As background, Chelsea's terms set out that it allows its borrowers to use their offset savings against their mortgage in three different ways -

- *Option 1* - net, which means Mr M prioritises lower monthly payments,
- *Option 2* - gross, which allows Mr M to use his payments to reduce his term in future, and specifically provides for an annual review of payments, and
- *Option 3* - static, which requires a fixed overpayment amount and is the fastest way to pay off a mortgage.
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Mr M has chosen the first option. I think that's clear from Mr M's original mortgage offer, which refers (under section 6, titled "*What you will need to pay each month*") to him having chosen to pay his mortgage on a net payment basis. This section goes on to say that Mr M should refer to the section headed "*Additional Features*" later in this offer document for details of his payment.

I should note here that the requirements set out in the offer immediately below this, in section 6, are for those who wish to use gross payments to pay off their mortgage. Gross payments are the default option for Chelsea's customers, but these provisions don't apply to Mr M, he's chosen to pay his mortgage in a different way.

The Additional Features section then summarises briefly how Mr M's offset savings account will work, but it refers Mr M to the two attached documents for further information.

Mr M sent us two pages from his "*How Your Mortgage Works*" document. He says that Option 1 refers to the need to register a net payment, if a borrower wants to use this option. And Mr M says he registered a net payment when he recently paid in a deposit of £25,000.

But that's not what I think this section means. I think registering a net payment here simply means a borrower has to tell Chelsea that this is how they want their mortgage to be treated. So Mr M registered a net payment in 2012, when he took out the mortgage and told Chelsea how he wanted his offset savings to operate, not when he made a more recent payment into his offset savings account.

Mr M says that these terms also refer to “*recalculation events*”. I can see they do, and one such event is listed as “*changes in your savings balance*”. But, importantly, I can see no reference to recalculation events in the section covering repayment option 1 – reduced current payments. I don’t think those are relevant for the mortgage offset option Mr M chose.

Under option 1, the option Mr M chose, Chelsea says quite specifically that it might get in touch if there is a significant change to the offset savings balance. But there’s no promise there from Chelsea to proactively rework Mr M’s mortgage if he makes a large payment into his offset savings account. That contrasts with the terms for Option 2, which do set out that payments will be reworked by Chelsea when a recalculation event occurs.

The document “*A Guide To Your Offset Options*” is, I think, entirely consistent with this. It says if Mr M makes any significant change to the balance of his offset savings account, he’ll need to get in touch with Chelsea. The document reads as follows –

“... each year at account review, we’ll recalculate your payment based on your outstanding mortgage and savings balance at the time. That’s why it’s important that if your savings balance changes, you let us know so we can recalculate your payment.”

So again, Chelsea isn’t promising to recalculate Mr M’s monthly payment each time he makes a deposit or withdrawal from his offset savings. Rather, it’s asking him to get in touch if he does either of those things.

But this doesn’t mean that when Mr M makes a lump sum payment into his offset savings account, Chelsea just ignores that money. It’s told us it offsets any payment into the linked saving account right away. That money is being offset against Mr M’s debt, as soon as the cheque clears.

Mr M can’t see that this is happening, because Chelsea hasn’t recalculated his monthly payment. But Chelsea has told us that, although interest is charged on a daily basis, and rates may change in-year, it only recalculates the monthly payment once a year. That’s consistent with the history of payments on Mr M’s account which I’ve seen.

Mr M will be aware that his monthly payments remained the same for 2022, although his offset balance rose and interest rates also rose. He’ll also be aware that when Chelsea did recalculate, a lower set monthly amount was then requested for 2023.

For the reasons I’ve set out above, I think that how Chelsea is operating Mr M’s mortgage now, is how it has set out this mortgage works, in the terms that Mr M initially agreed to.

I think it’s also important, in considering the effect of the documents above, to bear in mind that Mr M has contacted Chelsea about this before. After he made a payment into his offset savings, Mr M rang Chelsea in February 2017 to ask why his monthly payments hadn’t changed. Chelsea explained then that Mr M would need to get in touch, after he made a large payment, if he wanted his monthly payments to be reworked right away.

I know Mr M doesn’t think his mortgage account should operate like this. He thinks this is an additional hurdle that he shouldn’t have to get over, to have his monthly payments lowered. But I’ve set out above that this does appear to be what Mr M agreed to, at the outset, and has been reminded of since. So here, I think what Chelsea did, by not

adjusting Mr M's payments immediately when he paid in a large lump sum to his offset savings account in October 2022, was consistent with its terms and conditions, as they apply to Mr M, and consistent with what it had previously explained to Mr M. And I don't think that means Mr M's payment was having no effect at all. So I don't think what Chelsea did was unfair or unreasonable.

Mr M said he complained about this, when his payment wasn't taken into account. But he also accepts that he called Chelsea in advance of this complaint. And on that call, which I've listened to, Chelsea explained to Mr M that it asks its customers to send a secure message, once the balance of the account changed. Again, I think that's consistent with Chelsea's position on this type of mortgage.

Mr M said then that it shouldn't be for him to contact Chelsea, it should do this automatically. So he said he would complain.

Mr M then complained, and he said Chelsea should have actioned his request to backdate the payment right away, once it got this letter. But Chelsea had already reworked his mortgage. It had recently completed the annual review on Mr M's account, and it had sent him out a request for a new monthly payment amount.

What Chelsea did, in its complaint response letter, was to offer to backdate Mr M's lump sum payment. Chelsea didn't explain in detail here that it had already taken account of the overpayment, from 24 October 2022. But I think it had done this. So what Chelsea was offering was only to take account of Mr M's payment from a few days earlier than it already had done. It was offering to backdate the payment to the date the cheque was deposited, 20 October, instead of the date it cleared, 24 October.

It appears that Mr M had understood Chelsea hadn't taken any account of this overpayment until early 2023, and that it was offering to do so now. So when Chelsea said it would owe him £14.76 as a result, Mr M said that couldn't possibly be right.

Mr M wanted me to ask Chelsea for its calculations of interest, and audit this payment for him so he can be sure it was right. When Chelsea works out Mr M's payment for the year ahead, it's carrying out a complex calculation. And I'm sorry to have to tell Mr M that our service doesn't audit mortgages, so I won't be able to offer him the detailed examination of this calculation, and the reassurance he would like. But I can say that I have seen internal screenshots of Mr M's mortgage, and the funds Mr M paid in during October were taken into account in Chelsea's systems, starting partway through October 2022. I hope Mr M will find that of some reassurance.

Similarly, although it isn't the subject of this complaint, I can see that Mr M must have made a further overpayment in summer 2023. That reduced the balance for the purposes of calculating monthly interest on his mortgage to zero, although again, this won't necessarily have shown in Mr M's monthly payments, because those are worked out annually, as I've explained above. I understand Mr M then redeemed his Chelsea mortgage in August 2023. Chelsea has told us that a small overpayment was reflected in his redemption balance, and a further small refund was made to his offset account, following that redemption. I think that supports what Chelsea has said, about how this mortgage works.

For the above reasons, I haven't been able to see that Chelsea has done anything wrong in how it has operated Mr M's offset mortgage. I do think Chelsea's explanation of how this mortgage works could have been clearer and more detailed at some points. But I think Mr M's complaint was likely to have been made and pursued to our service anyway, as he's clearly been unhappy with how this mortgage works, and thinks it ought

to be operated differently. So, on balance, I don't think Chelsea has to do any more to resolve this complaint for Mr M. Although I understand that Mr M is likely to be disappointed by my decision, I don't think this complaint should be upheld.

I invited the parties to make any final points, if they wanted, before issuing my 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.

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Both sides have acknowledged receipt of my provisional decision, but neither side has offered any further evidence or argument. And I haven't changed my mind. I'll now make the decision I originally proposed.

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 M to accept or reject my decision before 15 December 2023.

Esther Absalom-Gough
Ombudsman