

The complaint

Mr T complains that The Royal Bank of Scotland plc (RBS) failed to reduce his contractual monthly mortgage payment after he made two lump sum payments to his mortgage with it.

What happened

In 2005 Mr T took a mortgage with RBS for approximately £215,000, over 23 years on an interest only basis. Mr T says the mortgage was set up to allow him to pay the minimum amount of interest per month with interest calculated daily on the amount owed.

In July 2023 he paid two amounts of £25,000 – one on 3 July and one on 4 July. He says that he did that because of increasing interest rates. He says that should have reduced the amount of interest charged by RBS but that didn't happen. And for two months – at which point he noticed the error – he was charged 35% more interest than he should have been. Mr T says that made it difficult to manage his finances during that time.

Mr T says he contacted RBS and was told he should have asked it to adjust the monthly payment after he paid the lump sums, but acknowledged that wasn't outlined in the contract. He says the contract does say he was supposed to have been charged the minimum amount of interest based on a daily interest calculation.

Mr T complained to RBS. In its response dated 16 August 2023, it said there are two ways the amount taken for payment on Mr T's monthly direct debit can be changed. They are by a change in the Bank of England base rate or if Mr T contacts RBS to ask for a change. RBS said, where the payment made (collected via the direct debit) is more than the minimum interest amount payable, the difference is used to reduce the capital balance. It confirmed that payments from September 2023 would be collected at the minimum interest amount. And it offered to refund the overpayment to Mr T. He's since told us he has not asked for the overpayments to be refunded.

Dissatisfied with RBS' response, Mr T asked us to consider his complaint. Our investigator didn't uphold Mr T's complaint as he thought RBS hadn't breached the terms and conditions of Mr T's mortgage agreement.

Mr T disagreed. He said his mortgage agreement allowed for over payments and was set up to charge a minimum amount of interest. And, he said, it's reasonable to expect that RBS can manage both those things correctly. Mr T said his cash flow was affected and he had no desire to reduce his capital balance with regular overpayments.

As Mr T disagreed with our investigator, his complaint has been passed to me 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.

To decide this complaint, I've considered Mr T's mortgage terms and conditions and his mortgage offer letter to assess whether RBS did or didn't act in line with what Mr T ought to have expected. And I've thought about whether, in all the circumstances, RBS has acted reasonably in respect of its handling of this matter.

Mr T's mortgage offer, dated 29 June 2005, contains a section headed "*What happens if you want to make overpayments?*" And in that section, it says:

"Interest is calculated on how much you owe each day, so any overpayments immediately reduce your borrowing and therefore the interest you will pay."

I think the key part of this statement is where it says "*the interest you will pay.*" I take that to mean the overall cost of interest charged over the life of the mortgage. That said, I can understand why Mr T may have assumed the statement referred to a reduction in the cost of his monthly payment, though I don't agree that it says that.

I've seen nothing in Mr T's mortgage offer that says he'll only pay the minimum amount of interest chargeable every month. But I can't know what he asked for at the time the mortgage was sold and what he was led to believe by the mortgage advisor. Mr T hasn't said the mortgage advisor told he would only pay the minimum amount of interest chargeable every month, but I haven't ruled that out as something that may have happened.

I've considered the mortgage terms and conditions to see what they say about only the minimum interest chargeable being collected every month and what they say about overpayments. Having done so, I've not been able to find anything that specifically explains what happens to monthly payments following a lump sum overpayment. And I've seen nothing that specifically says the monthly payments will be limited to the minimum amount of interest chargeable based on the outstanding balance.

Given the above, I've thought about what's reasonable in all the circumstances. Generally, where mortgages have a degree of flexibility – in that they allow overpayments and interest is calculated daily – there are two options for payments following lump sum overpayments. The payments either stay the same and the amount paid in addition to the interest chargeable is used to reduce the capital – as has happened here – or the monthly payments reduce accordingly – as Mr T says he wanted.

The terms and conditions of Mr T's mortgage don't specify which of those options is the default one. So, I don't think it's unreasonable that RBS continued to collect the same payment in the absence of any instruction from Mr T. I understand that it was clear to Mr T that his intentions were to reduce his monthly expenditure. But I've seen no indication that RBS ought to have known that – there doesn't appear to have been any correspondence from Mr T about him wanting to achieve that.

More widely, in RBS' response to Mr T's complaint, it said it would refund the overpayment for the two months affected. I understand that Mr T thinks the damage has already been done and so declined RBS' offer – and that means the outstanding balance on the mortgage will remain lower due to the difference used to reduce the capital. But I think RBS acted reasonably in making the offer and I think it didn't do anything wrong by keeping his monthly payment the same following the overpayments, given that it appears to have had no way of knowing Mr T's intentions.

Overall, I don't think RBS has acted unreasonably and I don't think its mortgage terms and conditions say it will automatically reduce the contractual monthly payment following a lump sum overpayment. So, I don't uphold Mr T's complaint.

My final decision

My final decision is I don't uphold Mr T's complaint about The Royal Bank of Scotland plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 21 December 2023.

Gavin Cook
Ombudsman