

## The complaint

Mr T complains that as interest rates have risen, he's paying less capital every month on his tracker repayment mortgage with HSBC UK Bank Plc. He said that HSBC had recalculated this without explaining this to him or getting his agreement, and this would cost him more.

## What happened

Mr T said he has a tracker mortgage, and as interest rates went up, so did his contractual monthly payment ("CMP"). Mr T said he expected that. But he said he didn't expect that, at the same time as his CMP increased, the amount being used to pay off the capital also decreased. He said that now, each CMP he makes contributes around 15% less to the reduction of capital than it did when his mortgage was taken out.

Mr T said he hadn't authorised HSBC to do this, he wanted his capital payments to remain constant until he told HSBC otherwise. Mr T said the changes HSBC had made would mean that he would pay more interest over the period of the loan.

Mr T said he'd asked HSBC to explain, and it hadn't. All it said was that the mortgage broker wasn't responsible for explaining this to him. Mr T wanted us to look into this for him.

HSBC said it had listened back to the call Mr T had when he set up this mortgage, and it was satisfied the recommendation it made then was suitable for his needs. The advisor didn't explain during the call about the mechanics of how a CMP worked, but HSBC said it wouldn't usually expect its advisors to go into that level of detail, and Mr T hadn't asked any questions about this.

HSBC said that in general terms, in the first years of a capital repayment mortgage (the sort of mortgage Mr T has) more interest will be paid monthly, whilst in the later years more of the capital is repaid monthly. On a short term basis, HSBC said Mr T could usually expect to see a small change in the capital repaid in each monthly repayment. But, importantly, it said that what had happened recently on Mr T's mortgage was a series of interest rate increases. So there hadn't been a period of consecutive months on the same rate that HSBC could point to, to show Mr T how this worked.

HSBC also said that changes to Mr T's mortgage would also be affected by the point in his billing cycle when the interest rate changed. If the interest rate changed partway through a month, then it might take longer for all the effects of this change to filter through. But it said Mr T wouldn't pay more overall because of how HSBC was calculating his CMP. He might end up paying back more overall if interest rates were higher than initially anticipated, but HSBC said Mr T had told it he understood and accepted this.

Our investigator didn't think this complaint should be upheld. At first, he said he hadn't seen any evidence that the amount of Mr T's CMP going toward repayment of the capital had changed. He referred Mr T to the relevant provisions in the terms of his mortgage. And he said he wouldn't expect a mortgage advisor to explain in detail how the CMP is worked out.

Mr T didn't agree. He sent us some more detailed information on his recent monthly payments, which he said clearly showed the capital repayment part of his CMP decreasing as interest rates were rising. He said that meant there must be something wrong. Or, if this was right, then HSBC or our service should be able to provide an illustration.

Our investigator then wrote again, he said HSBC had provided some general information on how Mr T's mortgage was worked out, which he shared with Mr T. (I won't set that out again here.) And he said he still didn't think HSBC had done anything wrong.

Mr T said that wasn't what he wanted, he wanted a tailored illustration for his own mortgage. Our investigator said Mr T would need to ask HSBC for this. And he said that our service doesn't audit mortgages for people. Because Mr T had requested that his complaint be considered by an ombudsman, this case then came 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.

I've reached the same overall conclusion on this complaint as our investigator.

I should start out by confirming what our investigator said, that our service doesn't audit individual mortgages for complainants. So I can't provide the detailed and personalised information on his mortgage that Mr T said he would like. However, I hope a more generalised explanation covering how interest rate changes affect the CMP on a repayment mortgage, may still assist.

What Mr T is concerned about, is that over the period between the end of 2021 and early 2023, each month, the amount of money which is being used to reduce his outstanding capital balance owed to HSBC, was going down. He said HSBC must be changing how it works out this capital repayment, and it shouldn't do that without having either agreed this with him, or explaining it at the outset.

I think that what Mr T is concerned about here, is just a function of how a capital repayment mortgage works, in the particular circumstance of repeated rises in interest rates. I'll try to explain that. Mr T may also find it useful to look at one of the many mortgage interest rate calculators available online, which will work out for him the annual repayments on different rates of interest, and show how this will affect the proportions of each annual repayment devoted to interest and capital. Some produce this calculation in the form of a graph, which makes the effect of a change in interest rates more clearly visible.

What Mr T will see, if he checks such a site, is firstly that capital repayment does vary over the term of the mortgage. As our investigator said, in the first few years, the amount of capital repayment is rather smaller, and it increases over the term, until at the end the bulk of the CMP is made up of capital repayment, with only a small proportion being used to cover interest.

But what is perhaps less obvious, is how the interest rate affects this calculation. And that's where using one of these online calculators can assist, because it allows for marked changes to be made to the interest rate. Comparing the results for very different rates of interest will highlight how that changes the overall proportion of the CMP which is being used for interest, and for capital repayment.

This change isn't as simple as the higher the interest rate, the larger the amount of the monthly payment which is being used to cover interest. The way that this interest repayment

reduces, and the capital repayment increases, each month, also changes. So when interest rates are low, then a graph showing the interest amount reduction and the capital repayment rise will show the change over the years almost in a straight line, across all the years of repayment. But once the interest rate rises, the graph shows much more of a curve, because it takes far longer for capital repayments to accumulate, and to make substantial reductions on the capital owed, which then impact interest. This effect is just a result of the need to smooth out payments over the entirety of the mortgage.

So what Mr T complains of here, a reduction in the amount of his CMP which is being used towards capital repayments, is simply what I would expect to see on a repayment mortgage like his, when the interest rate rises. The payment goes up, and unfortunately, because more of the payment over the lifetime of the mortgage is interest, that means that at the same time as the interest rate rises, the amount of the CMP dedicated to the capital reduction is likely to decrease.

What I'd expect to see, if there was only one increase in interest rates, isn't the reduction in the amount of capital repayment month on month, which is what Mr T has shown us. If there was only one increase in interest rates, then I would expect to see an increase in the CMP, and a reduction in the amount of the CMP which goes towards capital repayment (and HSBC has said this might take effect over two months, if the interest rate change happened part way through Mr T's payment period). Then I'd expect to see the proportion of CMP going towards capital repayment start climbing again, albeit more slowly than before.

However, I note that when HSBC replied to Mr T's complaint, it said it wasn't able to point to such a period during Mr T's recent account history, because there had, unfortunately, been consecutive rate rises over a sustained period. What HSBC says about a period of consecutive interest rate rises is consistent with the changes in Mr T's CMP which I can see in the information he's sent us. I think that's why his monthly capital repayment amount seems to be trending down. But once the interest rate on his mortgage stabilises, he should see the amount of that CMP going toward repayment of the capital start to slowly climb again, month on month.

I hope this assists Mr T. For the avoidance of doubt, I've not seen anything in this case which suggests to me that HSBC has made a mistake about the proportion of Mr T's CMP which is being used to repay the capital he owes. And I don't think that HSBC's advisor had to explain how Mr T's mortgage works to him, in this level of detail, during the meeting where he took out his tracker mortgage.

For those reasons, I don't think this complaint should be upheld.

**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 T to accept or reject my decision before 30 October 2023.

Esther Absalom-Gough  
**Ombudsman**