

The complaint

Mr D complains about the mismanagement of his mortgage accounts by Leeds Building Society. When Mr D paid off Part 2 of his mortgage account. Leeds increased the contractual monthly payments ("CMP") for Part 1. Mr D says that the mortgage was subject to an annual review and the CMP shouldn't have increased mid-term.

What happened

Mr D had a mortgage with Leeds composed of two parts and subject to annual review. The significance of the annual review is that Mr D knew what his payments would be for the following year and if there were interest rate changes he knew that these wouldn't impact him until the date the review came into effect in the following year. So, until September 2022, Mr D was paying £598.86. This was composed of £451.32 for Part 1 and £147.54 for Part 2. At that stage Part 2 was paid off and Mr D expected a decrease in his CMP to £451.42. But this didn't happen as Leeds sent Mr D a letter dated 30 September 2022 saying that the revised payment from October 2022 would be £503.50 which it said was calculated at the increased interest rate of 5.99% which applied from 1 October 2022. Leeds also told Mr D that the approximate balance on the account was £3,470.00. So, Mr D's CMP went up. Then in February 2023 Mr D got his annual statement and annual review which said that CMP would go down again from March 2023 to £448.31.

Mr D says that Leeds unfairly increased the CMP. He says that his CMP was only to change once a year at the annual review date. Leeds says that it can review the monthly payments if there's a material change to the mortgage before the annual review date, and it said that the paying off of Part 2 represented a material change.

Our investigator's view

Our investigator's view was that under the applicable terms and conditions, Leeds could change the CMP as the redemption of Part 1 of the mortgage was a change to the mortgage details but the interest applicable should have been the interest that applied from September 2022 which was a rate of 5.54%. Our investigator noted that at that stage the balance on the mortgage was £3,470.00 and the financial impact on Mr D was about £15. So, our investigator thought that reasonable compensation in the circumstances would be £75. Mr D disagreed and asked for a review.

My provisional decision

As my view of the outcome of this decision differed from that of our investigator I issued a Provisional Decision in the following terms:

"Mr D had a mortgage with an annual review so that from February in any year he would know what his CMP would be for the 12 months from March onwards. That suited him. Mr D is on a low income and budgeting is very important to him so he could budget for the payments he was expected to make from March going forwards. So, from February 2021 he

knew that he would be paying £451.32 for Part 1 of his mortgage account and £147.54 for Part 2. He also knew that the term of Part 2 came to an end in September 2022 and thereafter he would be paying £451.32 per month.

Then in September, Mr D got two contradictory letters from Leeds. One told him that although interest rates had increased as his account operated on the Annual Review Scheme, his payments wouldn't be changed until March 2023. This was how the scheme operated. Then on 30 September 2022, Leeds sent Mr D a letter saying that Part 2 of the mortgage had been redeemed but that the revised payment from October was £503.40 based on an increased interest rate of 5.99% rather than the £451.32 Mr D assumed. Mr D isn't given any reason why the increase is made to Part 1 of the account and why the payments made at annual review have been amended and indeed how the new figure has been arrived at.

There is no reference to the redemption of Part 2 causing a recalculation of the mortgage merely that the payments have been increased in line with the increase in the interest rate. That suggests a small increase in line with the small increase in the interest rate of the order of less than £5 per month but it's in fact about £50 per month. That's because, I understand, there's been a recalculation including any interest rate increases from the previous calculation. But the word recalculation isn't used in the letter of 30 September or indeed an explanation of how the new CMP was arrived at. This was after Mr D was told that there would be no such resulting increase in the earlier September communication from Leeds. That seems to me to be poor communication from Leeds. It suggests that there will be a small change in the payments in line with a small change in the interest rate not a recalculation which isn't referred to. Indeed that had been my understanding of the position from my reading of that correspondence.

Following Mr D's complaint, Leeds said that the redemption of Part 2 was a material change to the mortgage and this caused a recalculation of the payments mid-term. The question I have to consider is whether Leeds could change the CMP in this manner when not part of the annual review. Mr D had chosen this product because of the consistency of the payments throughout the year, and he thought he knew what he would have to pay when Part 2 ended, and he only had to pay Part 1. Leeds says it could review the payments if the mortgage details were amended.

The annual statements forwarded to Mr D say, "Although your monthly payment will not automatically be amended when interest rates change, it may change during the annual review period if your mortgage details are amended before the next review date ... For example if your mortgage operates on a fixed, discounted or tracker product which is due to end before the next review date, your payment will be changed when this happens."

So, the indication is that if the mortgage details are amended that the payments may change. But what mortgage details? The relevant details which I take from the examples given in the annual statement appear to be changes that would affect the interest rate and I can see the relevance of those. If an annual review assumes a fixed interest rate for the purposes of the review and that interest rate ends resulting in a different interest rate applying, I can see the fairness of a review taking into consideration the new rate of interest. But there is no similar event here. The ending of Part 2 of the mortgage isn't an interest rate event leading to a change in the interest rate.

Leeds refers to it being a material change to the mortgage. This isn't referred to in any mortgage documentation I've seen, but even if it was, I don't consider the redemption of a part of a mortgage in accordance with the agreed terms is a material change to the mortgage terms. It's not like an extension of the mortgage term or a change to interest only or further borrowing which would be material changes. The redemption of one part of the

mortgage in accordance with the agreed terms means the terms of the mortgage are fulfilled not changed. In any event, why should the redemption of one part of the mortgage in accordance with the mortgage terms lead to a review of the other part? It doesn't affect the other part. I can't see any rationale for it. So, for the reasons set out above I don't consider that Leeds should have recalculated the CMP in September 2022 and on that basis I intend to uphold this complaint.

I now have to consider the appropriate level of compensation. Mr D had to pay about £50 per month more than he should have paid between October and February - about £250. The CMP was reviewed, and Mr D paid less. The mortgage has now been redeemed. I accept that this money was used to pay off the mortgage and don't require Leeds to refund it. The only problem was that Leeds was asked for it earlier than was due. If there hadn't been a review Mr D would have paid less until February 2023 but more thereafter. But the timing of the payments was important to Mr D. He was on Universal Credit and living within a tight budget and any upset to that budget must have been very disappointing. He had reasonable expectations that he would have £50 per month more available to him after he paid off Part 2 of the mortgage than proved to be the case. Mr D was deprived of that unfairly in my view by Leeds review and recalculation in September. Mr D was not helped by the lack of clarity in Leeds communications. I believe that on balance compensation of £300 is fair."

I issued my Provisional Decision and invited Mr D and Leeds to make any further submissions they wished to make before I came to my final decision. Leeds told me it had nothing further to add. Mr D said that I hadn't mentioned that Leeds had put his interest rate up to 5.99% in September even though that rate hadn't come into effect until October.

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 looked at the further comments I had from Mr D and reviewed this file. I note what Mr D says about the interest rate going up, but I believe I've already dealt with this as I said that Leeds shouldn't have recalculated the CMP in September and I agree with him that it shouldn't have asked him to pay any increased interest rate at that time and I acknowledge that he had difficulties getting information from Leeds. So, having reviewed the file I believe that my provisional decision and the compensation suggested represents a fair outcome to this complaint and I will be upholding it on that basis.

Putting things right

Leeds Building Society should pay Mr D £300.

My final decision

I uphold this complaint and require Leeds Building Society to pay Mr D £300.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 27 September 2023.

Gerard McManus
Ombudsman