

The complaint

Mr V complains that Santander UK Plc has made mistakes with the interest rate applied to his business loan causing him financial loss.

What happened

Mr V says he understood that he took a fixed rate business loan with Santander for 10 years in November 2015. And that after five years he would be able to review the rate. He wasn't told that the rate had become variable and missed an opportunity to fix the rate before interest rates rose. He says that this will cost him some £10,000 over the remaining term.

Santander stated that the loan agreement included a fixed rate for five years. Mr V had contacted its relationship team in March 2020 about the rate. But the email exchange showed that he was told that the loan rate was then fixed until November 2020. It didn't have details of any follow up with Mr V. In error the loan didn't revert to a variable rate in November 2020, and this wasn't discovered until August 2022. The loan was reworked, and Mr V had been charged £2,323.66 too much. This was corrected to the loan and Santander accepted that it hadn't told Mr V about this at the time. It offered to pay him £500 for the poor service and communication.

Our investigator didn't recommend that the complaint be upheld. The loan documentation supported what Santander had said. And in contacting Santander and it seems another financial business earlier in 2020, Mr V appeared to understand that the fixed rate wouldn't continue. It had offered a reasonable amount of compensation for the error with the payments after November 2020.

Mr V didn't agree and wanted his complaint to be reviewed. He said he'd been told he was on the best rate in 2020 but not that this was variable. He maintained that he thought the fixed rate would continue. And this was confirmed when the payments didn't change after November 2020. He wanted to keep the rate he had.

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 reviewed the loan documentation. Mr V had a loan agreement for 10 years. That had a margin of 2.55% over a 'base rate'. He signed an agreement to fix the base rate he would pay at 1.90% for five years. Following that he drew down the loan. I'm satisfied that the fixed rate period was for five years and that the loan would then move to a variable base rate linked it seems to Bank of England Base Rate. It may be that Mr V intended to fix the base rate again after that period but there is nothing about this in the documentation I've seen. And I think he is fairly bound by this.

As has been set out in March 2020 Mr V contacted Santander about the rate. He said in an email that *"initially the agreement was fixed for 5 years, and the loan can stretch 10 years maximum... if I can fixed lower rate.. that's what I'm looking for."* The relationship manager

responded to say that it may not be possible to fix it before it expires but he would look into it. I don't have reason to doubt what Mr V says and that another member of staff called him and told him that there was no better rate available then.

The loan should have moved to a variable rate after five years. In error this didn't happen, and Mr V continued to make payments based on the fixed base rate. I appreciate he says he assumed that this would continue. It's clear that for the period to August 2022 he was paying too much interest as the variable rate was lower than the fixed rate. Santander realised that and corrected the position.

The variable base rate applied did increase in 2022 as the Bank of England Base Rate increased. Mr V was contacted with a 'loan invoice' at an annual review of the loan in November 2022. And told he had then not been paying enough. He explains that his payments have increased further as interest rates have risen. This is affecting his business and causing him distress. I understand that our investigator has established for him that Santander doesn't now have any better rate to offer him.

I appreciate that and why he's pursuing this complaint. I need to think about whether the position he is now in is the result of any mistake by Santander. I'm satisfied that Santander has now applied the terms and conditions of the loan and corrected the period when it was overcharging Mr V. The fixed base rate period was due to end in November 2020 and that is now correctly reflected. Mr V seemed to be asking about any better rate in March 2020. From the emails I think he was reasonably aware that his then rate shouldn't continue after November 2020. So, while I understand the potential for confusion when the payments didn't change, I can't see he followed that up with Santander or had a basis to assume that the fixed base rate had continued other than in error. And that as I say isn't reflected in the documentation. It's clear that in November 2020 the variable base rate for the loan was less than his previous fixed base rate. So even if I was to find that he should have been offered a fixed rate and which may have included fees I can't fairly know what Mr V would have done in November 2020 or take into account what it is now known happened to interest rates after that.

Santander has as I set out made an error and corrected this. It didn't tell Mr V about this at the time. So there has been poor service and communication and needless distress caused to him. It has offered to pay him £500, and I think that this is reasonable taking into account our published guidance about compensation. I know Mr V will be disappointed when I say that I won't be requiring it to do more than this.

My final decision

Santander has offered to pay Mr V £500 to resolve this complaint and I think that this is fair in all the circumstances. My decision is that Santander UK Plc pay Mr V £500 as it has offered to do.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 28 September 2023.

Michael Crewe
Ombudsman