

The complaint

Miss W complains about the interest rate charged on her mortgage with Landmark Mortgages Limited. She says Landmark has increased the interest rate in a way that isn't fair and has forced her into financial hardship.

What happened

Miss W has a mortgage with Landmark. It was originally with Northern Rock, and following that bank's collapse was moved to its nationalised successor NRAM. The mortgage is now with Landmark.

Miss W borrowed around £110,000 on her mortgage, with a further £30,000 on a linked unsecured loan. The mortgage was on interest only terms over 30 years. The initial interest rate was fixed at 5.99% until 1 March 2011, to be followed by a rate "guaranteed to be below Northern Rock Standard Variable Rate" (the SVR). In practice, this means Miss W's interest rate has been set at 0.01% below the SVR. At the time she took the mortgage out, in 2006, the SVR was 6.59%.

The unsecured loan was also over a 30 year term and set at the same interest rate as the mortgage – though with the proviso that if Miss W ever repays the mortgage without repaying the unsecured loan, the interest rate on the unsecured loan would rise to 5% above the SVR.

Miss W complains that the interest rate on her mortgage – the SVR less a 0.01% discount – has increased several times in recent months, to a level that is almost double what it was before rates started to rise. She says that the increased payments that result are unaffordable for her and driving her into poverty. She says she can't move her mortgage elsewhere so is trapped with Landmark.

Miss W says that Landmark has agreed to freeze the interest on the linked unsecured loan. This shows that it has discretion over what interest rate to charge. She says it would be fair for Landmark to reduce the interest rate on her mortgage to 5.75%.

Landmark said it had charged interest as permitted by the mortgage terms and conditions, and had increased the interest rate for good reasons. It said Miss W was free to move her mortgage to another lender and it had written to her reminding her that there was special provision in the rules of mortgage regulation for people in her position. It said it had done what it could to assist Miss W, including offering to allow her to offset past overpayments against her mortgage payments, agreeing a reduced payment arrangement, and freezing interest on the unsecured loan to allow her to focus on the mortgage. It said that if she was able to move the mortgage to another lender it would waive the right to increase the interest rate on the unsecured loan, and directed Miss W to independent mortgage advisers who could help her consider moving.

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.

The terms and conditions say Landmark can change the interest rate if one or more of the following reasons applies:

- There has been, or is expected to be, a general trend to increase interest rates on mortgages generally or mortgages similar to Miss W's;
- For good commercial reasons, Landmark needs to fund an increase in the interest rates it pays to its funders;
- Landmark wishes to adjust its interest rate structure to maintain a prudent level of profitability;
- There has been, or is expected to be, a general increase in the risk of shortfalls on the accounts of mortgage borrowers or mortgage borrowers similar to Miss W (whether generally or Landmark customers);
- Landmark's administrative costs have increased or are likely to do so.

Miss W says she has been advised that the interest rate can't rise more than twice a year. But I'm afraid that's not correct – that's not what the mortgage agreement says, and there's no law or regulatory rule to that effect.

The webpage she referred to is a description of how the interest rate used to calculate the interest rate for the government's support for mortgage interest payments works, not a description of, or restriction on, Landmark's ability to change its own interest rate. And she's also referred to a statutory instrument from 2017 – but again, that is about the setting of the rate for calculating support for mortgage interest and isn't relevant to the rate Landmark is entitled to charge.

Miss W also says that Landmark has told her that it's an "unlicensed lender", which she says means it shouldn't have her mortgage. Landmark isn't "unlicensed", it's fully authorised by the regulator, the Financial Conduct Authority. It's authorised to administer its existing mortgages, but not to enter into new mortgages with new customers. Although Miss W didn't take her mortgage out with Landmark, the terms and conditions say that the mortgage can be transferred to a new lender. As a matter of law and of regulation, Landmark is entitled to be Miss W's mortgage lender – and is so.

Landmark doesn't offer new fixed interest rates to existing customers. Miss W's mortgage offer and terms and conditions say that the SVR (less discount) would apply from March 2011, and don't say that her lender would be required to offer new fixed rates. There's no law or regulatory rule requiring it to do so, and Miss W is not being treated differently to other Landmark customers in this respect. So I don't think it's acted unfairly in not offering a new fixed rate to replace the SVR.

Landmark can only change the interest rate for one of the reasons set out in the terms and conditions. Landmark says it relied on the provision allowing it to increase the interest rate because, for good commercial reasons, it needs to fund an increase in the interest rates it pays to its funders.

Landmark has explained why it increased the SVR recently. Under our rules, I am permitted to receive information in confidence where I consider it appropriate, subject to providing a summary of it. I consider it appropriate to receive this information in confidence because it is commercially sensitive. But I summarise what it says in what follows.

Landmark has increased the SVR since February 2022. The increases have been at the same time and for the same amount as increases to the Bank of England base rate. The SVR is not directly linked to and does not track the base rate. Landmark funds its mortgage lending business through funding arrangements with third party funders on the wholesale markets. Its funding arrangements are driven by the SONIA rate rather than base rate (SONIA is a measure of the cost of lending between financial institutions and replaced LIBOR in 2022). Although they are not linked, the SONIA rate has increased, reflective of market conditions, to much the same extent as base rate has.

I'm satisfied that Landmark has shown that its funding costs have increased over the same period as the recent increases to base rate and in line with wider market conditions. Under the terms and conditions, Landmark is entitled to increase the SVR where its funding costs have increased and it needs to increase the amount it pays its funders. I don't think Landmark has acted in breach of contract in increasing the interest rate in the way it has.

While I recognise the increases have caused Miss W real difficulty, I don't think they were unfair either. Landmark is entitled to increase its interest rates when its own costs increase. Doing so has caused Miss W financial difficulty – but while that means Landmark should treat Miss W fairly and show her forbearance, it doesn't mean it's not entitled to charge the contractual interest rate or should reduce it. Landmark's SVR is higher than the fixed rates offered by other lenders, but – as I've said – it doesn't offer fixed rates. And its SVR is not an outlier compared to the SVRs of other lenders.

I think Landmark has shown reasonable forbearance. It's offered Miss W a range of options. It's unfortunate she's not able to move to another lender, but the barriers to her doing so are because of Miss W's circumstances rather than because of anything Landmark has done. It wouldn't charge an early repayment charge, and has offered to waive the increase in interest rate on the unsecured loan, to ensure there's no financial cost to switching. I think that's fair.

Miss W wasn't in arrears when she brought this complaint. There isn't an immediate prospect of Landmark taking action to recover the outstanding balance or repossessing her property. Miss W has put forward a credible long-term plan for increasing her income and taking steps to repay her mortgage over time. Landmark should treat her fairly and work with her to put the plan in place and put the mortgage on a sustainable footing for the future – but it isn't required to reduce the interest rate as part of that support.

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 Miss W to accept or reject my decision before 26 February 2024.

Simon Pugh
Ombudsman