DRN-4381515

The complaint

P, a limited company, complains about the way Lloyds Bank PLC has calculated repayments on its variable rate loan.

P has been represented in this complaint by its director, Mr B.

What happened

In 2017 P took out a business loan for £665,000, repayable over 25 years. An arrangement fee was added to the loan. The interest rate was variable, at 2.75% above the Bank of England base rate.

Mr B says that the amount of each monthly payment that's been used to reduce the capital on the loan has varied significantly. He's concerned that as things stand, this will result in a shortfall in capital repayments, and that the loan won't end up being repaid within the 25-year term without a significant increase in repayments later on.

One of our investigators considered the complaint but didn't think Lloyds had made an error. She said, in summary, that based on the evidence provided, she was confident that Lloyds' computer system would ensure that the loan would be repaid by the end of the term.

P remained dissatisfied, so the complaint's been passed to me.

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.

Having done so, I'm not asking Lloyds to do anything further. I'll explain why.

Lloyds has gone into some detail in its explanations of how the monthly loan repayments are calculated and why the amount used to reduce the capital on the loan varies, sometimes considerably, from month to month. It has also provided a spreadsheet showing projected monthly payments on the loan through to the end of the term, based on current interest rates. This shows how each payment is split between interest and capital and indicates that the loan will be repaid in full by the end of the term. I've found Lloyds' explanations clear and helpful, and the investigator shared both Lloyds' explanations and the spreadsheet with P.

As I know that Mr B is aware, through the term of the loan, as the outstanding capital balance reduces, a gradually greater proportion of the repayments is applied to reduce the capital. Mr B has pointed out that there are significant differences, month to month, in how much of the monthly payment is used to pay off the capital balance. I accept that, but I'm satisfied that there's a good reason for it.

Subject to changes in the base rate, monthly payments stay more or less the same. This helps the borrower to budget. But the fact that the number of days in a charging period varies from month to month means that the amount of the monthly payment that's taken up by interest varies from one month to the next.

August and September 2023 provide a good example:

> August 2023 – the monthly loan payment was £5,060.89. It covered the period from 28 July to 24 August: a period of 28 days. This was a shorter period than most, as the monthly payment date was brought forward by the August bank holiday. The interest for that 28-day period was £3,644.35, leaving the remaining £1,416.54 to be applied to reduce the capital balance outstanding.
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> September 2023 – the monthly loan payment was very similar, at £5,058.00. But the payment covered a 34-day period from 25 August to 27 September – a longer period than usual, due to the early August payment. Although the difference in the total loan repayment was minimal, interest of £4,444.90 had accumulated during the 34-day period, as opposed to £3,644.35 in the 28-day period covered by the August payment. This meant that a correspondingly much lower amount of £613.10 was used to reduce the capital balance outstanding in September 2023.

I accept that the difference between the portion of the monthly payment used to reduce the capital between those two months was large. £1,416.54 is clearly a lot more than £613.10. But that's because the monthly repayments stayed broadly the same, whereas there was a significant difference in the amount of interest due since the previous payment. This, in turn, was because one payment included 28 days' interest and the other included 34 days' interest. But over those two months, the average amount applied to reduce the capital was £1,014.77.

If the August payment date hadn't been brought forward to take account of the bank holiday, more interest would have been due by the monthly payment date and correspondingly less of the payment would have been used to reduce the capital balance. The knock-on effect would have been that less interest would have been payable on the September payment date and more of the September payment would have been used to repay the capital. It all averages out.

I know of no reason to doubt the accuracy of Lloyds' spreadsheet. It shows that the loan is on track, and that, subject to changes in interest rates, P's monthly loan payments won't need to be increased to ensure that the loan is repaid by the end of the term. I've thought carefully about what Mr B has said, but I don't find that Lloyds has made any mistake here. It's explained the position as clearly as I think it can. I can't reasonably require it to do more.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask P to accept or reject my decision before 15 May 2024.

Juliet Collins
Ombudsman