

The complaint

Mr H complains that Skipton Building Society has unfairly managed his mortgage over a number of years, including how it has calculated and applied interest to the mortgage.

What happened

Mr H's mortgage was sold through a broker to him in 2008. This was initially provided by Amber Homeloans Ltd, a subsidiary of Skipton and this is now operated wholly by Skipton Building Society.

In 2023, Mr H said he undertook a review of his mortgage and has identified a number of failings with how this is being operated. He feels interest is being applied to the mortgage unfairly and not inline with the mortgage contract.

He said from 2021 when Skipton took over the management of the mortgage, the detail on his statements changed and it no longer provided a breakdown of the monthly interest charged. He's now completed a review of the account himself and believes it is evident that the mortgage is not operating as it should with interest being charged in advance, rather than in arrears as he believed it would be. He feels the result of this is that he is being charged compounded interest with interest charged on interest.

Mr H doesn't believe Skipton has been transparent about when interest is added and the way this has been applied is in breach of the mortgage contract. There have also been occasions where his direct debit has not been collected on the first day of the month and this too should not be happening.

Overall, he doesn't think the mortgage balance has reduced correctly in line with the mortgage payments that have been made since 2008. He feels this may have been mis-sold from the outset with information about how the mortgage will operate not having been set out clearly.

Our investigator looked at this complaint and didn't think it had been evidenced that an error had been made. They explained that this Service does not provide an auditing function and if Mr H wanted to appoint a professional such as an Actuary or Accountant to complete an audit of the account, he could do this. And if this showed any anomalies, this could then be raised with Skipton.

The investigator was satisfied, based on the information provided by Skipton that the account was operating as it should. She said interest is charged at the start of the month, based on the balance of the account on the last day of the previous month and the interest is added based on this. If a payment is made during the month, the interest is recalculated based on the reduced balance and this often means there is an interest credit then applied, reducing the amount of interest previously charged.

She said the direct debit payment for Mr H's account was normally collected on the third working day of the month but is generally applied to the mortgage as if paid on the first. Because she was satisfied the mortgage is charging interest in line with the terms and

conditions, it was operating as it should and she didn't think Skipton had done anything wrong.

Mr H disagreed and reiterated the points he'd made previously about his mortgage balance and asked that the case be reviewed by an ombudsman as he believed he's demonstrated the mortgage has not operated as it should. As a result, the complaint has been passed to me for 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.

Mr H has provided a great deal of information in support of his complaint, including his calculations demonstrating how he feels the mortgage should be operating and what he believes the discrepancy to be. I am grateful for the time and effort spent producing these, and while I may not comment on everything provided, I have taken everything into consideration when making my decision.

Mr H has said he feels the mortgage may have been mis-sold from the outset as he wasn't provided with enough information to understand how it would operate and how interest would be applied. Although Skipton is responsible for the administration and management of the mortgage, it did not sell this in 2008. As such it is not responsible for the information provided at this point or any advice given. This would be the responsibility of the broker Mr H used to take out the mortgage and any complaint about the sale will need to be raised with it directly.

There is a number of parts to Mr H's complaint, but the crux of this is the belief that the mortgage is not operating as it should be with interest being charged in advance of the month and this having the effect of increasing the overall amount of interest Mr H is paying.

While I understand the concerns about this and how the interest is being charged, I have not seen anything to demonstrate this is not being done inline with the mortgage conditions. Skipton's mortgage terms and conditions say the following when explaining how they will charge interest:

"How we work out interest

We calculate interest each day. When calculating and charging interest, we don't include 29 February in a leap year.

We calculate interest each month on the money you owe us on the last day of the previous month. We add the interest to your mortgage account on the first day of the following month, for example, on 1 January, we add an interest amount to your mortgage account. We calculate this on the money you owe us at the interest rate that applies to your mortgage loan over 31 days, which is the number of days in January. We then calculate interest on this interest to achieve a daily interest charge.

Depending on when you make your monthly payment during the month, we'll make an interest adjustment to reflect when you make monthly payments in the month and apply an interest credit to your mortgage account."

This sets out how the interest will be applied to the mortgage. As our investigator has said, this Service is not an auditing service, but I have reviewed the statements for Mr H's account and can see that interest credits are applied each month following the application of the

interest at the start of the month and payment being received. The interest credit means any payment made is reflected with the interest charged, with this being adjusted to ensure it is only charged on the actual balance for each day of the month. So interest is not being compounded if the monthly payments are made in line with the agreement.

The statement information also demonstrates that generally, the mortgage direct debit has been taken on the first day of the month. And Skipton has said if this wasn't possible, due to when the first of the month fell, it has always applied the payments as if made on the first of the month. This appears to be the case and I cannot see any point in time where interest has been charged on interest when the monthly payment was correctly made.

As I've said, I have not audited the account or checked every month's interest calculation and payments as this is not my role, but I am satisfied from the information available that Mr H's account appears to have run in line with the terms Skipton have set out.

I appreciate Mr H has produced calculations which he believes demonstrates anomalies in his mortgage and the interest charged. But as the mortgage is operating in line with the terms and conditions, I cannot agree there has been an error.

My final decision

For the reasons I've explained above, I don't uphold Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 17 June 2024.

Thomas Brissenden
Ombudsman