

## The complaint

Mr and Mrs W complain that Bank of Scotland plc (trading as Lloyds Bank) didn't tell them to increase their monthly mortgage payments after interest rates increased. Mr W has dealt with the complaint. He'd like Lloyds to refund the unpaid interest of about £10,500.

## What happened

Mr and Mrs W had a buy to let mortgage with Lloyds. The mortgage was on an interest only basis. The term expired on 31 January 2022 with an unpaid balance.

Lloyds agreed a 12-month grace period for Mr and Mrs W to repay the mortgage. The mortgage was redeemed in December 2023. The mortgage was on Lloyds' standard variable rate (SVR) during this time.

After the term expired, Lloyds sent letters to Mr and Mrs W when the SVR changed. These letters said the interest rate had increased but didn't set out a new contractual monthly payment (CMP). Interest rates increased several times between January 2022 and December 2023. Mr and Mrs W continued to make the same payment each month. The unpaid interest was added to the balance.

Mr W says he maintained his monthly payment and was completely unaware that he needed to pay more following the interest rate increases. He says he was horrified to discover the mortgage balance had increased by £8,000 when he asked for a redemption statement in August 2023. He said the only update was the annual mortgage statement, which was no help as it arrived at the end of December 2023 after they'd sold the property. By that time the unpaid interest was about £10,500. Mr W asks for the unpaid interest to be refunded to them.

Our investigator said Lloyds didn't provide sufficiently clear information to Mr and Mrs W. He recommended that Lloyds pay £200 compensation and refund interest incurred as a result of the unpaid interest being added to the balance (about £270).

Lloyds didn't agree it had made an error but said to resolve the matter it would settle the complaint as recommended by the investigator. Mr and Mrs W didn't agree. They asked that Lloyds refund all of the unpaid interest (about £10,500).

I sent a provisional decision to the parties explaining why I didn't intend to uphold this complaint. My reasons were substantially as set out below.

Lloyds agreed. Mr W didn't agree. He said their complaint was that they received no information from Lloyds as to what their monthly payments would be after an interest rate rise. He said if they'd known anything about the excessive interest being added to the account they'd have sold the property in January 2023 or the autumn of 2022. He said they'd have achieved a much better selling price as well as not having to pay the additional interest.

## **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.

Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

Mr W called Lloyds in January 2023, shortly before the term of the mortgage expired. He said they'd intended to repay the mortgage through the sale of the property but were concerned they were in negative equity. Lloyds agreed a 12-month hold on action. The mortgage was redeemed in December 2023. Lloyds applied its SVR to the balance during this time.

Mr and Mrs W asked for a redemption statement in August 2023. They raised a complaint because the balance was higher than expected. This was because of unpaid interest that had been added to the account.

Mr W told Lloyds he received letters saying the interest rate was going up. But the letters didn't give him exact figures so he didn't know what to pay.

I don't think it's fair and reasonable to require Lloyds to pay further compensation or refund any further interest. My reasons are as follows.

Lloyds says it can't calculate a CMP after the term has ended. It says it made Mr and Mrs W aware of this, and that their monthly payments wouldn't cover the interest.

Lloyds provided copies of letters sent to Mr and Mrs W saying that the interest rate had increased. Lloyds says it sent one of these letters each time there was a rate increase after the term of Mr and Mrs W's mortgage expired. It says it sent 13 of these letters to Mr and Mrs W, the first in March 2022. Mr W provided a copy of one of these letters (dated 22 April 2022) to us, so I think Mr and Mrs W did receive the letters.

The letters say that the interest rate has increased and by how much. They go on to say:

Some or all of your term has ended

We haven't worked out a new payment for you because some or all of your term has ended. So, your existing total monthly payment will stay the same but it won't be enough to cover the change in the interest rate. If you pay by direct debit, we'll continue to collect your existing payment using the usual reference.

The letter gave a number for Mr and Mrs W to call if they had any questions.

This was an interest only mortgage. Lloyds told Mr and Mrs W that the interest rate had increased. So I think they were aware of this. I think Mr and Mrs W would have known that their monthly payment wouldn't be enough to cover the higher amount of interest. But, even if this wasn't obvious to them, the letters Lloyds sent to Mr and Mrs W say: "your existing total monthly payment will stay the same but it won't be enough to cover the change in the interest rate".

If Mr and Mrs W wanted to make additional payments to cover the interest or even repay some of the capital they could have done so. Lloyds had sent payment details to Mr W in early 2022 as he'd said he wanted to make overpayments.

If Mr and Mrs W weren't sure how much they needed to pay to cover the interest they could have called Lloyds and asked. While it couldn't calculate a CMP it could have told them how much interest had been added to the account. Lloyds says it received no real contact from Mr and Mrs W after the term expired.

Lloyds sent annual mortgage statements to Mr and Mrs W. The statement for the period 1 January 2022 to 31 December 2022 shows increases in the amount of interest applied each month. It shows Mr and Mrs W's monthly payments remaining the same. And it shows the increased balance due to the unpaid interest added to the balance. Mr W provided a copy of this statement to us, so I think Mr and Mrs W did receive it. I think Mr and Mrs W were aware at the end of 2022 that the unpaid interest had been added to the mortgage balance.

On balance, I don't think Mr and Mrs W would have increased their payments if Lloyds had given them more information. The letters sent by Lloyds made it clear their monthly payment wouldn't cover the interest. The annual mortgage statement sent in December 2022 showed the unpaid interest had been added to the balance. The redemption statement in August 2023 showed the unpaid interest had been added to the balance. None of this prompted Mr and Mrs W to increase their payments or contact Lloyds to ask what they needed to pay to cover the interest. Lloyds said Mr and Mrs W made no payments in the last three months before the mortgage was repaid.

In response to my provisional decision Mr W said Lloyds didn't give them a monthly payment amount. As I said, I think Lloyds provided enough information to Mr and Mrs W to make them aware that they needed to increase their payments if they wanted to cover the interest being applied each month. If they wanted to do this and weren't sure what to do or how much they needed to pay they could have contacted Lloyds. I must take into account here that letting property is a business, and it's reasonable for Lloyds to expect Mr and Mrs W to manage their buy to let mortgage accordingly.

Mr W also said if they'd known anything about the unpaid interest being added to their account they'd have sold the property in late 2022 or early 2023. As I said, I think Lloyds made Mr and Mrs W aware of this. After the term of Mr and Mrs W's mortgage expired Lloyds agreed a 12-month grace period (from early 2022 to early 2023) for Mr and Mrs W to repay the mortgage. I think if they had an opportunity to sell the property during this time it would reasonably have expected them to do so. I can't see that Lloyds is responsible for Mr and Mrs W's decision not to sell the property until late 2023.

Lloyds agreed to pay £200 compensation and to refund the interest applied as a result of the unpaid interest being added to the mortgage balance. It calculated this as about £270 and explained how it did the calculation. From what Mr W has said, it seems Lloyds has made these payments. I think this was a fair way to resolve the complaint. I don't think it's fair and reasonable to require Lloyds to make any further payments or refunds or take any further steps regarding this complaint.

### **My final decision**

Subject to any further comments or evidence I receive, I don't intend to require Bank of Scotland plc trading as Lloyds Bank to make any further payments or refunds or take any further steps regarding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W and Mr W to accept or reject my decision before 12 September 2024.

Ruth Stevenson  
**Ombudsman**