

The complaint

Miss L complains that Santander UK Plc unfairly charged interest to her mortgage account at its 'follow-on' rate, after her fixed rate had ended, rather than its standard variable rate as she was expecting.

What happened

In 2022 Miss L took a new fixed rate mortgage product with Santander. At that time, she had a mortgage of approximately £120,000 and had approximately 17 years remaining on her mortgage term. The new product was a fixed interest rate at 1.89% until 2 January 2024. And the mortgage remained on an interest only basis.

In January 2024, when the fixed rate deal came to an end, interest was charged on Miss L's mortgage at Santander's follow-on rate, which was 3.25% above Bank of England base rate. That equated to 8.5% at that time.

Miss L says she noticed she was on the follow-on rate, rather than the standard variable rate, after four months of paying it. And when she called Santander to discuss the matter, it put her straight onto its standard variable rate – which was 1% lower than its follow-on rate at that time. But it would not refund her the additional amount she'd paid in interest for the four months she was on the follow-on rate.

Miss L explained that she allowed her mortgage to move to, what she understood to be, Santander's standard variable rate in January – rather than getting another fixed rate deal – because she wanted to make unlimited overpayments. She also says that she cannot ever recall being told the follow-on rate was 1% higher than the standard variable rate – she thought the follow-on rate was the standard variable rate. And, she says, every mortgage rate deal she's had before then simply reverted to the standard variable rate. So, she complained to Santander.

In its final response letter dated 2 May 2024 Santander said it hadn't made a mistake. It said Miss L's mortgage offer confirmed it would revert to the follow-on rate when her fixed rate ended. And it said it wrote to Miss L on 3 January 2024 informing her the fixed rate product had come to an end and she could transfer to another deal including the standard variable rate.

Dissatisfied with Santander's response, Miss L asked us to consider her complaint. Our investigator didn't uphold Miss L's complaint. He thought Santander explained what would happen at the end of the fixed rate deal in Miss L's mortgage offer, informed her of her options at the time the deal ended, and didn't prevent her from moving to a new rate.

Miss L disagreed. She said it isn't reasonable to expect a customer to work out what the Bank of England base rate plus Santander's rate equates to. A standard variable rate is usually what a mortgage reverts to at the end of a fixed rate deal – not a higher convoluted rate made up by Santander. And she said she didn't know she wasn't on the standard variable rate because of the misleading language used by Santander.

As Miss L didn't agree with our investigator's view, her complaint has been passed to me for a 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.

To decide Miss L's complaint, I've thought about whether Santander informed her of what would happen to the interest rate it charged at the end of her fixed rate deal. I've also thought about whether it should have done more when her fixed rate deal ended and whether the reversion to the follow-on rate was unfairly restrictive.

Before Miss L's fixed rate mortgage deal started, Santander provided her with a mortgage offer (dated 15 October 2023). On page one, section two – "*Main features of the loan*" – the offer explained the follow-on rate. It said:

"In respect of product U602R [the interest rate product Miss L agreed to] after 2nd January 2024, interest will be charged at Santander's Follow-on Rate – a variable rate which will track at 3.25% above Bank of England official bank rate (its base rate) assumed to be 0.10%, giving an assumed rate payable of 3.35% for the remaining term of the mortgage. The assumed Follow-on Rate for calculations is for illustrative purposes only."

I think the above information is clear in that it says when the follow-on rate will apply – 2 January 2024; the rate that it's based upon – *the Bank of England base rate*; and the margin at which it tracks the Bank of England base rate – 3.35%. I think it's appropriately positioned in the mortgage offer document, as it's directly after a table outlining the fixed rate, and it's in the "*main features of the loan*" section. I also think the timing of the provision of this information was appropriate as Santander produced the offer to Miss L before she was committed to the new product. Overall, I think Santander informed Miss L of this feature of the product in a clear and timely manner.

Around the time Miss L's product was coming to an end, Santander wrote to her. I've seen copies of two letters sent to her – though they appear to say much the same thing and were sent on the same day. And I've seen templates of three other letters Santander says it always sends at the end of its products.

The copies of the letter I've seen – dated 3 January 2024 – informed Miss L that she was at the end of her fixed rate product and her mortgage would be moving to either the follow-on rate or the standard variable rate. It was specific about the current level of the rate – 8.5% – and the monthly payment she'd be expected to make. It also confirmed there was no early repayment charge applicable to a follow-on rate or a standard variable rate.

While the above letter wasn't specific about which rate Miss L would move on to, I think it would have been clear to Miss L that the follow-on rate and the standard variable rate were not the same. And I think that it would have been reasonable for Santander to expect Miss L to check her mortgage offer if she was unsure which of the two applied to her mortgage.

The template letters appear to have been more specific in that they would have said Miss L was moving to a follow-on rate. However, as I've not seen copies of the letters sent to Miss L, I've not assumed they were actually sent. That said, I am satisfied that the copies of the letters that I've seen were sent, show Santander provided her with information that ought to have alerted her to the fact that she'd moved on to a variable rate. And I think they would have made her aware there was a difference between the standard variable rate and the

follow-on rate. So, the rate referred to as a follow-on rate in Miss L's mortgage offer wasn't the same as Santander's standard variable rate.

Like Santander's standard variable rate, its follow-on rate allowed Miss L to make unlimited overpayments, redeem the mortgage entirely, switch to a new product or remortgage with a new lender without incurring an early redemption charge. So, I don't think the follow-on rate was unreasonably restrictive. And I haven't seen that anything Santander did or didn't do prevented her from moving to a different rate.

Miss L's main concern, understandably, is that the follow-on rate was 1% higher than the standard variable rate. She said the language used by Santander was deliberately misleading so that it could charge a higher rate. As I've said above, I think the mortgage offer made the existence of the follow-on rate clear as well as its details. I've also seen that, before the increases to the Bank of England base rate in the last few years – and at the time Miss L accepted the mortgage offer – Santander's follow-on rate was lower than its standard variable rate. So, I don't agree that Santander included a follow-on rate as a feature of Miss L's mortgage to charge additional interest over the standard variable rate.

I also think it's reasonable that the two rates changed independently of each other – one tracked the Bank of England base rate by a pre-defined margin and the other did not. That meant the standard variable rate changed by an amount Santander deemed fit according to market conditions and other circumstances and the follow-on rate moved according to a strict margin above Bank of England base rate that it was contractually obliged to adhere to.

In any event, Miss L was not bound to the follow-on rate and that was demonstrated when Santander moved her to the standard variable rate when she asked.

Miss L also says it isn't reasonable to expect a customer to work out what the Bank of England base rate plus Santander's rate equates to. And she says a standard variable rate is usually what a mortgage reverts to at the end of a fixed rate deal. I agree that it is much more common for a mortgage to revert to a standard variable rate at the end of a fixed rate product. But that isn't always the case and it's dependent on what the mortgage offer says. I don't agree that the concept of a tracker rate is unreasonably difficult to understand – it's a common product, offered widely in the mortgage market. And, in this case, the margin above Bank of England base rate was clearly defined. I also think the Bank of England base rate itself is widely published and easily accessible.

Overall, I understand Miss L's frustration with paying more money in mortgage interest than she needed to. But I don't think Santander has acted unreasonably here, and I've seen that Miss L's mortgage behaved in the way she agreed to when taking the fixed rate deal in 2022.

My final decision

My final decision is I don't uphold Miss L's complaint about Santander UK Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 19 December 2024.

Gavin Cook
Ombudsman