

## **The complaint**

Mr H complains that Bank of Scotland plc (trading as Birmingham Midshires) didn't apply a payment correctly to his mortgage account. He'd like the payment applied to his account and compensation of the same amount for any additional interest and his time and trouble.

## **What happened**

Mr H made his usual monthly payment to his mortgage in May 2021. When he checked his statement, it showed the payment as received and then reversed. He says the payment wasn't returned to his bank account and Birmingham Midshires hasn't explained what happened to it.

Our investigator said Birmingham Midshires had applied the payment to Mr H's account. However, it hadn't explained the entries on the statement or provided evidence the payment was correctly applied to Mr H. Our investigator said this caused unnecessary upset for which Birmingham Midshires should pay compensation of £100.

Mr H didn't agree. He said the statement provided by Birmingham Midshires didn't show the balance reducing by the amount of the payment. Birmingham Midshires didn't agree either, saying Mr H hadn't lost out as a result of his statement not showing the entries in full.

## **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 makes monthly mortgage payments by direct debit. In early May 2021, a couple of days before the direct debit payment was due, he made an overpayment into the account.

Mr H has an interest only mortgage, and so his monthly payments are of interest. The overpayment was a capital repayment.

Birmingham Midshires says it made adjustments to Mr H's account so that the payments were applied correctly. That is, the monthly payment was applied to pay accrued interest and the overpayment was applied to reduce the capital balance. It provided screen shots of entries on the account which show these adjustments.

However, the statement Birmingham Midshires sent to Mr H later in September 2021 didn't show the same entries as the screen shot. It showed Mr H's monthly payment being received and then reversed. Birmingham Midshires says this statement is wrong, and the payment was re-applied (despite this not appearing on the statement). The screen shots sent by Birmingham Midshires support this. But I think it's perfectly reasonable for Mr H – having received this statement – to question what happened and ask for evidence that the payment was in fact correctly applied to his account in May 2021.

I asked Birmingham Midshires to provide annual statements for Mr H's account. These show the two payments received in May 2021 (the overpayment and the monthly interest

payment). The interest payment is shown as received, reversed and received on the same day. The overpayment is shown as received on the 5<sup>th</sup>, reversed on the 5<sup>th</sup> and received on the 10<sup>th</sup> of May 2021. I think the payments were applied to Mr H's account.

The screen shots provided by Birmingham Midshires show the account balance reducing when the overpayment was received (5 May 2021).

Mr H said the screen shots aren't right because they don't show the balance reducing when he makes monthly interest payments. I don't think that's an error. This is an interest only mortgage and so these payments are of accrued interest. The monthly payments don't – and aren't intended to – reduce the capital balance. If Mr H didn't make monthly interest payments (or if they weren't applied to his account) the accrued interest would be added to and increase the balance.

### **Putting things right**

I think the payments made by Mr H in May 2021 were applied to his mortgage account. So I don't think he has financial loss. But I do think this matter caused upset and confusion.

Birmingham Midshires sent a statement to Mr H which was incorrect and appeared to show a payment being reversed. While it assured Mr H his account was correct – and I think it's provided sufficient evidence to support this – it didn't acknowledge this error when Mr H raised concerns. It's understandable that Mr H remained worried. I think it's right that Birmingham Midshires pays compensation for the unnecessary upset caused first by the error in the statement and then by not explaining better what had happened. Having considered what both parties have said, I think £100 is fair and reasonable in the circumstances.

### **My final decision**

My decision is that I uphold this complaint. I order Bank of Scotland plc (trading as Birmingham Midshires) to pay £100 to Mr H.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 23 August 2022.

Ruth Stevenson  
**Ombudsman**