

The complaint

Ms A complains that Belmont Green Finance Limited trading as Vida Homeloans (“Vida”) charged her too much interest on her interest-only buy to let mortgage, which meant she was left with a larger redemption figure than she was expecting at the end.

What happened

Ms A had a buy to let mortgage with Vida. She took out the mortgage in October 2018. It had a fixed interest rate of 3.34% for the first two years, ending in October 2020.

Ms A said that Vida had charged her interest which was more than the monthly amount it told her it would charge, during the initial two years when her mortgage rate was fixed. She said that Vida never wrote to tell her that insufficient payments had been made. But then at the end of the two year period, Vida added a lump sum to her mortgage, without any notification or justification of the amount. She said that her mortgage balance went up as a result, and she had to pay back much more to Vida as a result.

Ms A wanted Vida to refund the hidden extra charges it had added to the mortgage account without informing her.

Vida said it hadn’t done anything wrong. The amount owed on Ms A’s mortgage fluctuated from month to month, but that was to be expected. It said it hadn’t overcharged her.

Our investigator thought this complaint should be upheld, because he thought that Vida wasn’t charging quite enough each month to cover Ms A’s monthly interest payment.

Vida said it wasn’t doing that, and it sent us some more information on what Ms A had been charged.

Vida said that the difference between what Ms A borrowed and what she was asked to pay back wasn’t because of small amounts of monthly interest being unpaid, and building up over time. It said rather, it was because Ms A’s interest rate went up at the end of her fixed term period. That happened in October 2020, halfway through a month. Ms A was still charged the old contractual monthly payment for that month. Vida said that didn’t cover the interest she owed for that month. It had asked Ms A if she wanted to make up the difference. But she hadn’t made a payment, so the amount was added to her overall debt with Vida.

Vida still didn’t think it had done anything wrong. It wanted this complaint to be considered by an ombudsman, so it was passed to me for a final decision.

I then reached my provisional decision on this case.

My provisional decision

I issued a provisional decision on this complaint and explained why I did not propose to uphold it. This is what I said then:

Our investigator thought this complaint should be upheld, because he thought that the reason Ms A had to repay more at the end of her mortgage was due to a slow build-up of unpaid interest over time.

But I don't think that's what has happened here. I can see that Ms A's overall debt did fluctuate slightly month to month, but that's not surprising, that happens just because she pays the same amount each month. Her interest charge is a little bit less in shorter months, and a little bit more in longer months. Importantly, I can't see that there has been any slow build-up of unpaid interest though. That's not why Ms A owed more than she expected.

I think that what happened, is that when Ms A's interest rate changed, at the end of the initial fixed rate period on the mortgage, that happened partway through a month. And the direct debit payment she made for that month wasn't adjusted to take that into account. So Ms A owed more interest in October 2020 than she had paid.

Vida has shown us that it wrote to Ms A about this, on 1 October 2020. It told her in that letter that her monthly payment was going up to a little over £1,000 from November. And it said that, because the change in interest rates happened partway through October, there was going to be an amount of unpaid interest, for that month. This was £368.14.

Vida invited Ms A to pay this, if she wanted to. It said that if she didn't do that, it would be added to the balance of the loan.

Ms A's mortgage statement shows the amount she owed does vary a little from month to month, as I've explained. And the figures also go up and down each month as interest is added, and then paid. But if we look at what's left after each of her monthly direct debit payments, we can get an overall picture of what she owed. And importantly, what Vida has said now is consistent with what I can see on Ms A's mortgage.

Before October 2020 I can see that each time she had paid her direct debit for the month, she then owed around £200,000. And after October 2020, each time she paid her direct debit for the month, she owed around £200,300.

I understand that Ms A mustn't have received Vida's letter inviting her to pay the extra £368.14, and telling her it would be added to the mortgage if she didn't. That's because she told us "*No letters or correspondence was received notifying of insufficient payments.*" But Vida does seem to have sent this letter to the right address, and it wouldn't be Vida's fault if it wasn't delivered.

Aside from this, the amount Vida asked Ms A to pay at the end of her mortgage also seems to have been affected by the rejection of her direct debit in June 2021. But again, I haven't seen anything to suggest to me that this is Vida's fault. It's possible that Ms A may just have been making arrangements then to redeem the mortgage, which took longer than expected.

I haven't been able to see that Vida has made a mistake in this case, which has resulted in Ms A being asked to pay more than she expected at the end of her mortgage. I think Vida has explained why Ms A was finally asked to pay more than she had initially borrowed. I know that Ms A will be disappointed by this, but for those reasons, I don't think this complaint should be upheld.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both sides replied.

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.

Vida said it had nothing to add at this stage.

Mrs A wrote to ask me to reconsider. She said because she was paying by direct debit each month, she expected this payment would be sufficient to cover the interest Vida charged. But she said her mortgage statement showed some months where the monthly direct debit payment didn't cover the interest being charged. Mrs A said Vida continued to claim the same amount by direct debit over the two year fixed interest rate period, while the amount owed continued to increase. She said that was why the amount she owed had gone up.

I explained in my provisional decision why I didn't think this was the case. I set out there that the amount of interest charged on Mrs A's mortgage did fluctuate slightly month to month. But once that monthly interest is averaged out, it is covered by the amount that Vida has charged each month.

Importantly, I cannot see the slow build-up of interest in the first two years of her mortgage that Mrs A says is the cause of the problem. I don't think that's what happened.

I explained that when the fixed interest rate period on Mrs A's loan ended, Vida wrote to her to tell her that her direct debit would be increasing. And it also explained that because her interest rate was changing part-way through that month, it wasn't taking the full amount owed for that month by direct debit. I think this just affected one month, and I don't think Vida has to pay back this money just because of this.

Mrs A says Vida didn't write to her about this. Mrs A said she only became aware of the added sum in December 2020. She said when she asked Vida about this, no one could explain it to her, and that's why she complained to us. Mrs A said if Vida had really written to her in October 2020, then it would have produced the letter to her earlier in her complaint.

I accept that, with the benefit of hindsight, it would have been helpful if Vida had pointed out that it had written to Mrs A in October 2020 when it first replied to Mrs A's complaint. It looks as if Vida was concentrating then on explaining to Mrs A how monthly interest had been calculated in the two years before her interest rate change, rather than explaining what happened in October 2020. But Vida had already provided a complaint response in considerable detail, so the fact that it didn't provide even more doesn't change my mind on this case.

I've accepted that Mrs A mustn't have received this letter in October 2020, but I still think it was sent. I don't think there's anything here to suggest Vida has somehow fabricated evidence in this case.

I've considered Mrs A's further representations carefully, but I haven't changed my mind. For the above reasons, and particularly because Mrs A's statements just don't show the slow build-up of unpaid interest that she thinks has caused the problem here, I still don't think this complaint should be upheld. So I'll now make the decision I originally proposed.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or

reject my decision before 30 August 2022.

Esther Absalom-Gough
Ombudsman