

The complaint

Mr and Mrs W complain that the process to re-mortgage with Bank of Scotland plc ("BOS") took too long and the delay meant that they paid more interest while they waited for this to complete.

What happened

Mr and Mrs W had a tracker mortgage with BOS on which the interest rate had been reviewed every two to three years. Mrs W says that she contacted BOS in November 2019 to request that the rate be revised from 26 February 2020, which was the expiry date of the rate they were on at the time. She says that she was told that it was too early to change the rate and was advised to call back in January 2020 when the rate could be agreed. Mrs W says that she tried to call back repeatedly but was unable to speak to someone. Mr and Mrs W eventually discovered that the telephone line had been closed and the department responsible for their mortgage had been closed down. They say that they made more than 50 telephone calls and exchanged over 120 emails in order to arrange the new interest rate.

Mr and Mrs W eventually managed to get in contact with BOS and they say that they were told at this stage that their mortgage was classified as an offshore mortgage and that this type of mortgage was being discontinued, which they had not been aware of beforehand. However, they say that they were told that the mortgage could be transferred to a standard residential mortgage which could be arranged by 26 February. Mr and Mrs W say that at no time did BOS advise them that it was discontinuing its offshore mortgages, that it was closing the department they had been dealing with or provide any information on how they should contact BOS when the department did close.

Mr and Mrs W say that a representative from BOS assisted them to make a complaint and asked for the new interest rate to be backdated to 26 February and they were assured that this would be the case. They say that there were a number of delays caused by BOS and their legal representative, including sending documentation to an incorrect address, incorrect documentation, ignoring online communications and making repeated requests for the same information. The new mortgage completed on 19 May 2020, which was almost three months after they had been assured this would happen and their monthly mortgage repayment changed from £10,312.50 to £8,793.72 at this stage.

Mr and Mrs W say that the delays resulted in additional charges of £6,415.65, which represented the difference in the mortgage interest rate between 26 February and 19 May. Mr and Mrs W say that BOS has now passed the debt of £6,415.65 onto its recovery team. They have found the matter exceptionally stressful and would like the debt, and any reference to it on their financial records, to be removed and an apology from BOS.

Business Response

BOS says that Mr and Mrs W's old mortgage was not a standard mortgage but was set up as an offshore mortgage which was a specialist scheme aimed at higher value mortgages. This was managed in the Isle of Man and handled by a case manager who dealt personally with their account. Mr and Mrs W had a tracker product of 2% above the base rate reverting to 3.19% above the base rate and this appeared to have been reviewed periodically with Mr and Mrs W calling for a review before the end of the set time. BOS made a business decision to no longer offer this type of account and all such mortgages were transferred to

another system and the Isle of Man office closed. BOS says that Mr and Mrs W were sent a letter in November 2018 to inform them of this, albeit that there were no other changes to the account at this point other than a new account number and it would be dealt with onshore and no longer case managed. As a result of this transfer, instructions were added to the system by Mr and Mrs W's previous case manager to ensure that the rate of 2% above base rate remained in place until February 2020, at which point it would revert to 3.19% unless another rate was agreed.

BOS says that it hasn't been able to find any evidence of Mrs W contacting it in November 2019 having searched its systems. The first record it has been able to find of Mrs W contacting it following the account moving onshore was 10 February 2020, when she said that she was calling as she had received a letter stating that her rate was coming to an end and wanted to discuss this. There were three calls on this day. In the initial call, the representative was unable to locate Mrs W's account. Later that day another representative of BOS believed that it was Mr and Mrs W's term which was ending and not the rate so transferred her call to the end of term team. A representative from this team agreed to find the correct team and called Mrs W back on the same day to put her through to the correct person, who explained that there would need to be a more detailed process to discuss the rate and that a call back would be arranged for this.

As BOS no longer offered the offshore mortgage, when Mr and Mrs W contacted it to review the rate in February 2020 BOS says that it was unable to offer a new rate going forward whilst the account remained on the same terms and conditions. Had the mortgage remained as it was then the account could have continued to operate until the end of the term under the original contract but as Mr and Mrs W wanted to change the rate, this required a new contract. It was therefore identified that Mr and Mrs W would be required go through BOS's internal process of a specialist re-mortgage to a standard BOS mortgage in order to allow a new rate, rather than just a product review. Whilst the previous case manager did attempt to arrange a bespoke rate, this was not possible and the case was therefore passed to a mortgage advisor to go through the specialist re-mortgage process with the customers. Three calls took place between 24 and 26 February 2020 to fully complete this and it was agreed that BOS would extend the preferential rate of 2% above base rate whilst the application process went through.

As the mortgage was being moved to a new scheme, the application was treated like Mr and Mrs W were new customers and involved a new valuation and conveyancing work, which was carried out by an external solicitor. Mr and Mrs W's application was fully submitted on 26 February. A valuation was completed on 9 March and, following an underwriter review, a mortgage offer issued on 1 April, which is when the conveyancing work commenced. BOS says that there were no unreasonable delays in processing the application and that there were seven weeks between the issuing of the mortgage offer and the date the mortgage started, which was not excessive.

BOS says that it is regrettable that it was not explained to Mr and Mrs W that timescales could not be guaranteed and that the application was never going to be completed within their expected timescale. As a result of this, it offered Mr and Mrs W £300 to compensate them as it didn't think it had adequately managed their expectations around how long the application would take and what was involved; this was subsequently increased to £500.

In relation to the £6,415.65 referred to by Mr and Mrs W, BOS says that this relates to arrears due to a missed payment in July 2020 and does not related to an increase in the mortgage interest rate whilst Mr and Mrs W were waiting for the re-mortgage. Mrs W contacted BOS on 26 February and was unhappy with how long the process would take and asked if the existing rate could be extended whilst the process continued. This was agreed by BOS and its system was set to continue taking a monthly payment of £10,312.50, with the account interest being adjusted each month to ensure that the additional interest did not accrue on the account. A letter was sent to Mr and Mrs W to this effect. Mr and Mrs W did

not make a higher payment and rebates were completed for March and April 2020 (the old account being redeemed on 20 May 2020). Therefore, BOS says that Mr and Mrs W suffered no detriment during this period. BOS says that it agreed not to increase the payments when the preferential rate was due to end but that there is no evidence to suggest that it agreed to decrease the rate.

Investigator's View

Our investigator looked into this complaint and explained that the figure of £6,415.65 does not relate to additional charges due to the increase in the mortgage interest rate whilst waiting for the new mortgage to start. This relates to arrears due to a payment being missed in July 2020. The investigator was satisfied that it would not be fair to ask BOS to waive the arrears as they had been correctly applied to the account.

In relation to the period prior to the start of the application, the investigator found that Mr and Mrs W were informed about the closure of the Isle of Man office in a letter dated November 2018 and given a new account number. So when Mrs W called the Isle of Man office to review the rate, this number wouldn't have worked as the office had closed long before this. Having listened to the calls, she found that Mrs W had not mentioned during these that she had called in November 2019 but it was identified when she called on 10 February that Mr and Mrs W would need to go through a specialist re-mortgage rather than just a product review. The investigator agreed that BOS should have set Mr and Mrs W's expectations accurately and clearly in terms of how long this process would take. However, she was satisfied that the compensation of £500 offered by BOS was sufficient to compensate for the distress suffered during this process.

Regarding the extension of the existing rate, the investigator found that it wasn't possible for BOS to apply the new rate (with a monthly repayment of £8,793.72) from February 2020 as the re-mortgage wasn't complete at this stage. Therefore, it wouldn't be fair to say BOS should have applied this. BOS extending the existing rate ensured that Mr and Mrs W did not suffer any financial detriment as they continued to pay what they had done until the re-mortgage was complete.

In relation to delays in processing the re-mortgage, our investigator was satisfied that the time taken between the application being submitted on 26 February and the completion date of 19 May was reasonable and that BOS wasn't responsible for any unnecessary delays during this period.

Mr and Mrs W disagree with this and so the case has come to me to make a decision. They say that they had a 20-year mortgage with an interest rate tracker review every two years and that they had ten years remaining, therefore they had no need to re-mortgage and change to a standard BOS account. Mr and Mrs W says that they didn't request that BOS extend the existing rate, they requested that the new rate be applied from 26 February and were assured that this would be the case by the agent. They maintain that calls were made in late 2019 and that they were not notified that the office was closing.

Following a further review, our investigator found that, although BOS had applied manual adjustments to the interest applied in March and April 2020, it had not done so between 1 and 20 May 2020 immediately prior to the re-mortgage completing. The rate which had been applied over these dates was the reversionary rate of 3.19% above base rate instead of the preferential rate of 2% above base rate. He therefore recommended that BOS should correct the account as if the lower rate had been applied during that period. BOS has agreed to do this. Mr and Mrs W were invited to comment further on this aspect but no further response was received.

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.

Having carefully considered all the evidence and arguments, I agree with the investigator's view for broadly the same reasons and I've explained my reasons further below.

Initially, I would like to deal with the point that Mr and Mrs W have made that they had no need to re-mortgage and change to a standard BOS account as they had ten years remaining on their term.

I have seen a copy of correspondence showing that the mortgage was provided by BOS in Isle of Man in 2012 with the term to expire in June 2030. A preferential rate was offered in 2014 to reduce the margin to 2% over base rate from 3.19% over base rate for a period of three years. This was reviewed in March 2017 and it was agreed that the preferential rate would continue for a further three years. I have seen a copy of a letter sent to Mr and Mrs W on 1 February 2017 indicating that the preferential rate would be extended and that from 6 March 2020 the variable rate would revert to 3.19% for the remaining mortgage term.

In light of the above, I agree that Mr and Mrs W's mortgage term didn't expire until 2030. However, the preferential rate which they were on of 2% above base rate did expire in March 2020. Although Mr and Mrs W had previously been able to change their rate every two years with the offshore mortgage, changes had been made and this was no longer an option available going forward. Therefore, by 2020 the only way they could obtain a new rate was to re-mortgage to a standard BOS account. It is a matter for BOS about what products it will offer and it is entitled to make a business decision to withdraw the offshore mortgage scheme. So Mr and Mrs W could have chosen not to re-mortgage but they would have remained on the contractual rate of 3.19% above base rate had they chosen to do so.

Period Before Application

Mr and Mrs W have said in their complaint to BOS that the reference number for their mortgage ended 8796 and that they contacted BOS on the regular telephone number on the bank's correspondence in November 2019 to ask if they could obtain a new tracker. They have said that they were told to call back at the end of January 2020 to arrange this prior to the expiry date of their existing tracker rate on 26 February. Mr and Mrs W say that they tried to do this but were not told that the number had been discontinued and had to call various numbers, none of which had any record of their mortgage reference number.

I have seen a copy of a letter sent to Mr and Mrs W in November 2018 informing them that their mortgage had transferred to the UK as of 29 October as planned. This set out that BOS had recently sent their new payment details and mortgage account number for them to use when paying their mortgage and that they should set up their new payment if they had not yet done so. The letter also said that BOS had written to Mr and Mrs W in September explaining that the way it calculated interest would change. It enclosed their new account number (ending 7104) and payment details again and gave them a number to call if they had any questions.

Mr and Mrs W have said that they did not realise their account had changed when trying to contact BOS in January 2020 and that a number of branches didn't recognise their account number. However, I am satisfied that they were made aware around November 2018 that their mortgage had changed following the previous review of the interest rate, that they were provided with the new account number at this time and that they were given a new telephone number to call if they had any questions about their account.

I've listened to the calls between Mrs W and BOS on 10 February 2020 in which she provides her new account number. In these calls no mention is made of earlier calls in 2019 or being told to call back in January. Mrs W says that she is calling in response to a letter received about her rate ending which was dated 4 February. Although the adviser was unable to locate the mortgage on the initial call, it was identified later on the same day that she would need to go through a specialist re-mortgage and Mrs W was told that someone

would call back within 24 hours to arrange an appointment for this. So I'm satisfied that there was not a significant delay here. But I think BOS could have made it clearer at this stage what the application process would involve and better managed expectations as to how long this might take. BOS has offered Mr and Mrs W £500 to compensate them for this and I think this is reasonable in the circumstances.

I have also listened to the call which took place on 24 February during which Mrs W was informed that the adviser didn't think the new mortgage would be in place by March and gave further details about the process. However, during this call BOS advised that it would extend the interest rate Mr and Mrs W were currently on. I will consider this in more detail later in my decision but mention it here as it shows that further information was provided two weeks after the initial call as to timescales and the extension of the interest rate meant that any delay would not result in Mr and Mrs W paying more in any event.

Time taken for new mortgage to complete

Mr and Mrs W say that there were a number of delays caused by BOS and their legal representative, including sending documentation to an incorrect address, incorrect documentation, ignoring online communications and making repeated requests for the same information.

I have considered the timeline and can see that the application was submitted on 26 February and the offer was produced around five weeks later, on 1 April. The mortgage completed on 19 May, so seven weeks after the offer was made.

I have looked at the timeline of events provided by BOS's conveyancer. Although there appears to have been an issue with an incorrect address at the beginning of the process, I can't see that this caused a considerable delay or any knock on effect on progressing the re-mortgage.

BOS has said that it is normal to take six weeks to complete the necessary checks from the date of offer. I understand that Mr and Mrs W saw this as a simple rate change, but for the reasons set out above the application had to be processed as a re-mortgage. Having looked at BOS's conveyancer's timeline I am satisfied that the application and re-mortgage process progressed in reasonable time and was not excessive.

In any event, BOS agreed to keep Mr and Mrs W on the same rate until the re-mortgage completed so I don't think they have lost out as a result of the time taken for the re-mortgage to complete. Likewise, I consider that the compensation of £500 offered by BOS is reasonable to cover the issues raised by Mr and Mrs W in this regard.

Interest rate whilst application was progressing

Mr and Mrs W say that, despite BOS's assurances that the new rate of interest would be applied from 26 February 2020, this was not done.

I have listened to the call which took place on 24 February during which Mrs W was informed that the adviser didn't think the new mortgage would be in place by March. The advisor says that she would therefore contact the person looking after the account and ask them to apply a manual extension on the interest rate Mr and Mrs W had at the time which looked to have already been agreed. Mrs W asked for clarification as to whether this meant that the rate they were paying at the moment would be extended until the new mortgage was approved and the advisor confirmed that this was correct. The advisor said that the rate of 2.75% would be kept in place temporarily until the new rate was put in place and Mrs W agreed with this.

I have also listened to the call which took place between BOS and Mrs W on 26 February. Following the completion of the application question, the advisor confirmed that the existing rate would be extended on to March and that, if the re-mortgage wasn't completed by then, it would be extended further.

Having listened to the calls, I am satisfied that it was agreed that the preferential rate of 2% above base rate (which was 0.75% at the time) would be extended until the re-mortgage was completed. It was not agreed that the rate of interest for the re-mortgage would be applied retrospectively. I think this was fair as it meant that Mr and Mrs W would not revert back to the higher contractual rate they should have been on after the preferential rate expired. And Mrs W agreed with this approach over the phone at the time the re-mortgage application was completed. I don't think it would be reasonable to expect BOS to backdate the new rate as the re-mortgage hadn't completed by that stage.

I have gone on to consider whether the agreed rate (2% above base rate) was in fact extended as it should have been until the re-mortgage was complete. I have noted that, over the period the re-mortgage was being processed, base rate was reduced from 0.75% to 0.25% on 11 March 2020 and then reduced further to 0.1% on 19 March 2020. BOS has advised that these changes would take effect from the first of the following month.

BOS has said that its system does not allow it to extend an interest rate so it applied a manual interest rebate to the account in order to adjust the interest charged. The system was therefore set to continue taking a monthly payment of £10,312.50, with the account interest being adjusted each month. Where the rebate was applied, this meant the monthly payment was higher than the net interest charged during the month and the payment resulted in a capital reduction. BOS says that an interest rebate was provided in March and April 2020 which covered the interest difference of 1.19% between the preferential rate applicable until February 2020 (2% above base rate) and the reversionary rate applicable from March 2020 (3.19% above base rate).

I can see from the account statements that Mr and Mrs W made repayments of £10,312.50 in March and April 2020, which was the same as the February payment. I can also see from the internal notes that interest rebates were made on the old mortgage account in respect of the payments for March 2020 (based on a rate of 2.75%) and April 2020 (based on a rate of 2.1%) to reflect this. So, whilst Mr and Mrs W's repayment amounts remained the same in March and April, I am satisfied that the rebates of interest were applied to the mortgage account to reduce the capital. I am satisfied that this was in accordance with the agreement to extend the preferential rate.

As the old mortgage was redeemed on 20 May 2020, there was no repayment made in May. However, the additional days since the last repayment were taken into account when calculating interest on the redemption statement. BOS has now confirmed that there was no interest rebate in May 2020 so the interest charged to the old mortgage account between 1 May and 20 May was calculated at 3.29%. It therefore agrees that the interest charge on the redemption statement should be recalculated for that period as no adjustment was provided.

I am therefore satisfied that the interest for the period between 1 May and 20 May 2020 should be recalculated based on an interest rate of 2.1%, in order to adhere to the agreement made by BOS to extend the preferential rate until the re-mortgage was completed.

The account should then be corrected as if the lower rate had been applied. I note that surplus funds from the re-mortgage were credited to the new mortgage on 22 May 2020, as the amount being borrowed on the new mortgage was more than the amount needed to redeem the debt on the old mortgage. Had the redemption statement been calculated correctly, this would have meant that a larger amount would have been credited to the new mortgage account following completion. This in turn would have meant that the arrears on the account were less when Mr and Mrs W missed the June and July repayments, which I will discuss further below.

Outstanding charge of £6,415.65

Mr and Mrs W say that the arrears of £6,415.65 is due to additional charges representing the difference in the mortgage interest rate between 26 February and 19 May, which they say has been incurred due to delays.

BOS says that the funds for the new mortgage were released on 19 May. As is usual, the first payment for this was due the following month and was higher than usual as it included the interest from when the account was taken out to the end of that month along with the interest for the whole of the following month. Mr and Mrs W's completion letter sets out that the first payment of £12,542.68 would be taken on 29 June 2020. However, a payment of £14,920.75 was made on 22 May, which was credited from BOS's solicitors as it was surplus funds from the re-mortgage, as the amount being borrowed was only the amount needed to redeem the debt on the old mortgage with the remaining amount being issued back to the bank. The payment due on 29 June bounced, but as the extra payment had been credited to the mortgage account in May, this did not take the account into arrears.

As a result of this, the direct debit was cancelled by the funding bank, which BOS says often occurs after a payment has bounced to prevent the bank account going into unauthorised overdraft. A new direct debit mandate was sent to Mr and Mrs W, following a call from them on 7 July. However, the mortgage payment of £8,793.72 was also not received as expected on 28 July, which meant that the account was now in arrears. Due to the extra payment on 22 May, this was not by as much as the full missed payment and amounted to £6,415.65.

So, by the end of July, Mr and Mrs W should have paid £21,336.40 in monthly payments towards their new mortgage (£12,542.68 for the June payment and £8,793.72 for the July payment) but neither of these scheduled payments had been made. However, a payment had been made in May of £14,920.75 – before any contractual payment was due – which meant that the arrears as at the end of July stood at £6,415.65.

In light of the above, I am satisfied that this figure does not relate to additional charges and that it has not been added on to their account incorrectly. It is as a result of the two missed mortgage payments in June and July 2020.

However, as set out above, the agreed extension of the preferential interest rate was not applied in the month of May 2020. Had this been applied, then the credit made to the new account on 22 May would have been larger, and consequently the arrears would have been less. Once the account has been corrected to reflect this, the account will likely still be in arrears and it will be for Mr and Mrs W to make arrangements with BOS to pay this.

BOS says that any arrears less than one month's payment are not reported to credit reference agencies but that it has sent letters to Mr and Mrs W and called them with the aim of setting up a payment plan. So I am satisfied that no arrears have been reported to credit reference agencies.

Putting things right

For the reasons set out above, I partially uphold this complaint and require BOS to:

- Calculate for the old mortgage the difference between the amount of interest which was paid by Mr and Mrs W for the month of May 2020 until completion and what would have been paid if the lower interest rate of 2.1% had been applied. Then apply the difference to the new mortgage and rework this as if the additional funds had been credited on 22 May 2020.
- Pay Mr and Mrs W £500 in respect of the distress and inconvenience (if it has not already done so).

My final decision

For the reasons I've explained above I uphold this complaint and require Bank of Scotland plc to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs W to accept or reject my decision before 8 September 2022.

Rachel Ellis
Ombudsman