

## **The complaint**

Mr and Mrs F complain The Royal Bank of Scotland Plc (RBS) treated them unfairly when they asked for a mortgage payment deferral during the coronavirus pandemic.

## **What happened**

In around September 2019 Mr and Mrs F took out a business loan of around £350,000 secured over the property they intended to use for their new business. The loan was for a period of 25 years with a five-year fixed interest rate and contractual monthly payments (CMP) of £1,984.70.

In March 2020 due to the coronavirus pandemic the business couldn't operate. Mr and Mrs F asked RBS if they could defer their CMP in line with Financial Conduct Authority (FCA) guidelines relating to the treatment of borrowers likely to be impacted by the coronavirus pandemic. RBS said the terms and conditions of Mr and Mrs F's loan didn't allow that. But they'd agree a capital repayment holiday (CRH).

The CRH was agreed for six months. Mr and Mrs F say they didn't receive any confirmation of the terms of the CRH. And information they were given by RBS by email and over the phone about how the CRH would operate, the payments they'd have to make and when they would fall due was unclear.

RBS requested two CMP incorrectly and Mrs F had to contact them to be reimbursed. She was in regular contact with RBS to try and clarify the payments she and Mr F would have to make, and when they would fall due. They received text messages saying payments were overdue and had to check with RBS their credit file wouldn't be impacted. RBS put the CRH in place for seven rather than the six months agreed, which meant Mr and Mrs F were further behind on their capital repayments than they'd understood they would be. And their CMP increased, which led them to think RBS had increased their interest rate, which they'd fixed for five years.

RBS acknowledged they'd made mistakes. They paid Mr and Mrs F £150 for the service issues they complained about initially. When the error about the period of the CRH came to light they said Mr and Mrs F needed to make a payment of £1,954.05 to regularise their account and restore their payments to around the level they ought to be. They offered £1000 compensation towards that and apologised for the mistakes they made.

Mr and Mrs F weren't happy for their complaint to be resolved on that basis, so our investigator looked into things. He thought RBS had been wrong not to allow a payment deferral in line with the FCA guidance. He didn't think it excluded commercial customers like Mr and Mrs F. He thought RBS had treated them unfairly in not agreeing to that.

Mr and Mrs F had paid the interest due. Asking RBS to refund those payments and add them to the balance of their mortgage, as would have happened if a pandemic payment deferral had been agreed, would have increased their CMP going forward. Mr and Mrs F didn't want this as a resolution.

Our investigator identified a mistake in RBS's calculation of some of the interest RBS had charged and thought it should be refunded. RBS found they'd undercharged for a separate period. Mr and Mrs F were slightly better off when the underpayment and overpayment were set off against each other. He didn't suggest any adjustment be made.

RBS offered to pay the full CMP for the additional month they'd wrongly included in the CRH. Our investigator thought that was fair to regularise their account. But Mr and Mrs F thought RBS had wrongly increased their interest rate as their CMP had gone up. They would only accept the outcome if RBS agreed to reduce their CMP to the previous level.

Our investigator acknowledged that businesses had been under pressure because of the pandemic with changes to their working practices and felt that explained in part the poor service RBS provided. But given the shortcomings he identified in the service RBS had provided, our investigator thought RBS should pay Mr and Mrs F £650 compensation for distress and inconvenience.

The parties agreed the investigator's conclusions about how the complaint should be resolved as to the overpaid/underpaid interest, payment of the CRH by RBS for the final month of the CRH and compensation for distress and inconvenience. But Mr and Mrs F weren't happy to resolve the complaint unless RBS agreed to reduce the CMP to the pre-CRH level. Our investigator thought the term of the mortgage would have to be extended to address that issue. And he said Mr and Mrs F would have to make a separate application to RBS for that to happen.

Since the complaint hasn't been resolved, it was passed to me to decide. I recently issued a provisional decision, an extract of which follows:

***What I've provisionally 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.*

*RBS have provided clarification since this complaint was referred to me and my decision differs in part from our investigator's. So, I'm issuing a provisional decision to give the parties the chance to comment before I issue a final decision.*

*In March 2020 the FCA issued guidance to lenders about the support they should offer customers who were finding it difficult to pay their mortgages because of the pandemic. The guidance said lenders should offer borrowers payment deferrals if they were likely to be impacted by the pandemic. It didn't exclude commercial customers like Mr and Mrs F. So, RBS ought to have agreed to their request.*

*Given they'd only recently set up their new business, which they had to close temporarily, I can understand Mr and Mrs F found it difficult and stressful to meet the interest payments that were due under the CRH. I think RBS treated them unfairly by not agreeing a full capital and interest deferral in line with the FCA guidance.*

*I've looked at the contact between RBS and Mr and Mrs F between around March 2020 and October 2020. The CRH seems to have been signed off by RBS in around mid-May and backdated. Despite several requests from Mr and Mrs F, RBS failed to give them confirmation in writing about the CRH they'd agreed.*

*Some of the delays in processing the CRH application and clarifying things can reasonably be explained by the increased work volumes and the adjustments to working practices RBS had to make due to the pandemic. But the information RBS gave Mr and Mrs F about*

*how the CRH would work in practice, and the separate bank account they set up, was confusing.*

*It's not clear whether the agreement was sent to Mr and Mrs F although the records suggest they may have had it in around October. But that was too late given the issues that had arisen. And in any event, the agreement didn't contain any detail about how the CRH would work in practice.*

*RBS wrongly collected the full CMP after the CRH had been agreed. Although they gave a refund, missed payment letters caused Mr and Mrs F concern their credit files would be affected. And Mr and Mrs F received texts from RBS saying they'd gone overdrawn. RBS took payment at the end of September, a day earlier than Mr and Mrs F expected, when there were insufficient funds in their account to pay.*

*RBS told Mrs F, incorrectly, the full CMP would have to be paid from November 2020. The CRH was for six months beginning in April 2020 and ending in September, so the full CMP was payable from October. That led to Mr and Mrs F missing a CMP that was due for payment by them.*

*I'm not aware RBS wrote to Mr and Mrs F, as I'd expect and the CRH agreement said they would, to let them know the new monthly payment and the date it was due following the end of the payment holiday.*

*The way RBS managed things understandably caused Mr and Mrs F concern as well as the inconvenience of having to contact RBS many times to find out what was happening. I think the level of service RBS provided fell well below what Mr and Mrs F could reasonably have expected, even bearing in mind the impact of the pandemic.*

*I think the £650 compensation the parties have agreed is fair to put right the distress and inconvenience caused by RBS's mistakes.*

#### *Over-charging between March and April 2020*

*Between March and April Mr and Mrs F overpaid interest. During a later period between April and June 2020 they underpaid interest. In the end Mr and Mrs F were better off by around £40. Since this happened due to errors by RBS, I don't think it would be fair to make any adjustment for the limited net benefit to Mr and Mrs F.*

#### *Increase in the CMP*

*Mr and Mrs F are concerned their CMP has increased since the CRH ended.*

*RBS have provided evidence to show they extended the term of Mr and Mrs F's mortgage by six months, in line with the CRH agreement. And I'm satisfied they haven't changed the interest rate which is fixed for five years.*

*They've also confirmed the reason why the CMP increased was because there was a missed payment in October 2020. As I understand it, since the balance of the mortgage increased because of that missed payment, interest is being paid on a higher amount, albeit at the same rate.*

*RBS have offered to credit Mr and Mrs F's account with an amount of £1,954.05 to bring their account in line with where it would have been had RBS not fixed the CRH for seven months rather than the six agreed, which resulted in the missed payment. They've said this will result in Mr and Mrs F's CMP returning to the original level of £1,984.70.*

*Since November 2020 Mr and Mrs F's CMP has been around £20 a month higher than they were paying originally under the fixed rate deal. So, between November 2020 and September 2022 they've paid more than they would have done - by roughly £440 - had the October payment been made. RBS will need to take into account the actual amount Mr and Mrs F have overpaid by when they rework their account.*

### **My provisional decision**

*Bearing everything in mind, I think it's fair, to put things right, for me to direct the Royal Bank of Scotland Plc to:*

- 1. Credit Mr and Mrs F's account with £1,954.05;*
- 2. Rework their account as if that payment had been made in October 2020 and taking into account the additional payments Mr and Mrs F have made of around £20 a month since November 2020; and*
- 3. Pay Mr and Mrs F a total of £650 compensation for distress and inconvenience to include the £150 they have already paid them.*

### **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 and Mrs F have accepted my provisional decision and RBS said they had no further comments to make. So, I see no reason to change the conclusions I reached. And I uphold Mr and Mrs F's complaint for the reasons set out in my provisional decision.

### **Putting things right**

Since the parties haven't made any comments on how I think Mr and Mrs F's complaint should be resolved, I make no changes to what I said in my provisional decision.

### **My final decision**

I direct the Royal Bank of Scotland Plc to:

1. Credit Mr and Mrs F's account with £1,954.05;
2. Rework their account as if that payment had been made in October 2020 and taking into account the additional payments Mr and Mrs F have made of around £20 a month since November 2020; and
3. Pay Mr and Mrs F a total of £650 compensation for distress and inconvenience to include the £150 they have already paid them.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs F to accept or reject my decision before 31 October 2022.

Julia Wilkinson  
**Ombudsman**