

The complaint

Ms J complains that for several years Skipton Building Society applied her overpayments to the wrong part of her part and part mortgage. Although this has recently been adjusted, her contractual monthly payments (“CMP”) have dramatically increased.

What happened

Ms J has a part interest only, part capital repayment mortgage with Skipton since 2006. The loan was for £64,000 with £37,145 of that being the interest only account. The term was 19 years. At times Ms J requested to make monthly overpayments in addition to her CMP to reduce her interest only balance. It seems that in May 2015 Ms J took out a new mortgage product with a CMP of £213.58 but asked for an overpayment of £260 to reduce the interest only amount. But Skipton in fact from June 2016 started to apply the overpayment to the capital repayment account.

A new mortgage product was taken out in July 2017. At that time the CMP quoted to Ms J was £197.96 and Ms J increased her payments including the overpayment to £300. In July 2019, Ms J took out a new mortgage product with a CMP of 158.85 and Ms J arranged a new voluntary overpayment of £310.71. In July 2021, Ms J took out another mortgage product with a CMP of £80.50 and Ms J increased her payment to £350.

Skipton says that in a conversation in September 2021 it told Ms J that the outstanding balance then showing in her mortgage was £37,072.06 of which £36,912.90 was then showing as interest only and £159.16 as capital repayment.

Skipton accepted that the overpayments were applied incorrectly and adjusted the accounts, crediting the interest only account with the overpayments and deducting the capital repayment account with the overpayments that had been incorrectly allocated. But this also meant that the CMP was then significantly increased from £94.44 to £353.30 to ensure that the now increased capital repayment balance was paid off by 30 June 2025 in accordance with the term of the mortgage. Skipton also offered £100 compensation.

Our investigator’s view

Our investigator was content that Ms J had been put into the position she would have been had Skipton not made the error and that the compensation of £100 was a fair reflection of the impact on Ms J of the error. Ms J disagrees. She says that the payment in July 2021 was £80 per month and is now £358 per month and this is causing her great stress. She wants an investigation of what product should have been offered to her at the renewal dates had the correct figures been applied.

My provisional decision

As my view of this complaint differed from that of our investigator I issued a Provisional Decision in the following terms:

“Ms J has a mortgage composed of different parts. From about 2015 Ms J decided to make overpayments to reduce the interest only balance on her mortgage so that she wouldn’t be faced with a large outstanding balance when its term ended. At the same time, she assumed that by making the monthly repayments the capital balance, on the capital repayment part of the mortgage, would be reducing to ensure that that part of the mortgage would be paid off at the end of term. But it’s accepted that Skipton made an error putting the overpayments to the credit of the capital repayment side of the mortgage rather than the interest-only part. It has since reversed this which is appropriate.

But there is another issue which I’ve brought to Skipton’s attention. Ms J was working on the assumption that she was making the capital repayments to pay off that part of the mortgage at the end of term. Her capital balance was reducing but because of this error by Skipton which was funding the capital repayment side rather than the interest-only side. Now that the error has been recognised and reversed Ms J is left with a much higher capital balance on the repayment side than should have been the case. The reason being that Skipton was not correctly collecting the monthly capital repayments it should have been collecting if it had not made the error. So, because of this Ms J was underfunding the capital repayment account.

I don’t consider that Ms J was aware of this. I note that on each mortgage product renewal she always asks that the overpayments be put to the interest-only side and no one from Skipton tells her that it is in fact going to the capital repayment side. So, I don’t consider that Ms J was alert to this issue. In my view this is an issue of Ms J underfunding the capital repayment side because she was misinformed by Skipton as to what the correct repayments should have been. In a normal underfunding case, we would ask the business to make up the capital repayments that Ms J should have been paying if it had informed her correctly what those payments would have been.

Skipton asked whether his should be looked at differently. Ms J has had been able to use overpayments to reduce the interest-only balance. Skipton asks me to consider whether Ms J could afford the same level of overpayments and have effected the same reduction in her capital repayment balance if Skipton had been collecting the correct repayments it should have been collecting. In other words, if I am to put Ms J back in the situation she should have been in with Skipton doing things as it should have been - would Ms J have made the same overpayments on the interest only account?

That seems to me to come down partly to Ms J’s motivation and partly whether she could afford to do it. I’ve no doubt that even if Ms J was paying a larger sum towards the capital balance it was clearly her intention to pay down the interest only balance, so she was left with a manageable balance at the end of the term. I recognise that she didn’t intend to pay off the full balance before the mortgage term ended or she would have chosen a full capital repayment mortgage. But I believe that even if required to pay a higher payment towards the capital repayment balance she would have still wanted to pay down the interest-only balance in the amounts she was doing.

The other issue is whether she could afford to pay the correct capital repayments and the overpayments to the interest-only account.. Skipton has worked out what those extra payments towards the capital balance would be from under £10 per month until June 2019 rising to about £40 month until July 2021 and then over £100 per month up to July 2021. Was this affordable to Ms J whilst she made the overpayments on the interest only account? I note that Ms J holds a substantial amount of money in investments. But I’ve reasonably assumed that Ms J wanted to hold onto that money for the future and I should look at what was affordable with her income rather than her savings.

I’ve looked though the information that Skipton holds on file for Ms J. I note in 2017 at the review held then that Ms J had a gross income of £22,060.32 pa, free disposable income of

£670 and said she could afford £420 as a monthly payment. I note that Skipton's stress test based on interest rates going up suggests she could afford £ 200 per month more than that. So, I believe that Ms J's self-assessment of what she could afford is reasonable and a good benchmark for what she could afford.

I note that Ms J's gross income increases by the time of the 2019 review to £25,680.00 pa and in June 2021 its £25,896.00. I calculate that to be about a 13-14% increase in her income from 2017. There is no indication of any lifestyle changes that would have substantially affected Ms J's expenditure during that period although from 2021, inflation would have had increased her expenditure and affected her disposable income.

In the period before 2017, Skipton figures indicate that for Ms J to keep her capital payments on track, Skipton should have told her to make monthly amounts of less than £5 per month and I believe that those payments were affordable along with the overpayments she was making at that time had Skipton made her aware of it.

Following the 2017 review Ms J paid £300 per month including overpayments. Using the information from Skipton's spreadsheet, Skipton should have asked her to pay an extra £6.73 per month rising to £9.23 per month to reduce the capital balance as intended,. As those figures together are lower than £420 I believe that Ms J would have paid the increased figure had she been aware of it.

Following the 2019 review Ms J paid £310 per month including overpayments. Skipton should have asked Ms J to pay an extra £34.41 per month, rising to £41.67 per month and falling to £39.64 per month over the two years to reduce the capital balance as intended. As the increased figures would be less than the benchmark figure of £420 I believe that Ms J would have paid the increased figure had she been aware of it.

Following the 2021 review Ms J paid £310 per month including overpayments. Skipton should have asked Ms J to pay an extra £112.99, rising to £146.58 in January and February 2022, falling to £139.19 in March, £135.39 in April and May, £128.54 in June and £124.65 in July. My figures would indicate that Ms J could only afford extra payments of £110 per month (£420-£310). My view is that she could not afforded the full extra payments but could have paid up to £110 during this period.

So, I find that had Ms J been aware of the true capital repayment figures she would have been able to meet those payments in full during most of the period but would have been unable to meet her overpayments in full from July 2021 onwards. Skipton denied Ms J the opportunity to make those payments. In order to put Ms J in the position she should have been in, Skipton should adjust Ms J's capital balance on the repayments side of her mortgage for the period before August 2021 as if she made the capital repayments that Skipton should have required her to make. For the period from August 2021 until July 2022, it should adjust the capital repayments balance as if Ms J was making additional payments of £110 per month off the capital repayment part of her mortgage. I believe that these adjustments fairly address the underfunding issue.

There is one other issue that Ms J raised which was that Skipton's errors had affected her choice of mortgage product at the 2021 review when she chose a tracker mortgage.. But the evidence indicates that her choice was related to the fees that were applied to Skipton's fixed rate mortgages and there is nothing to support the view that her choice of mortgage product was affected by these errors. So, I don't uphold that part of the complaint.

Skipton suggested that £100 would be suitable compensation for Ms J's distress and inconvenience following its adjustment of the balances on the accounts. That seems reasonable. However, that adjustment didn't consider the underfunding issue and left Ms J in

distress faced with the higher capital balance and a higher CMP than she should have to pay. But I recognise that for a long period Ms J was making savings by not being required to pay the full CMP. Those savings would far outweigh any further award for Ms J's distress that I would be minded to make. So, I don't consider it appropriate to make an additional award arising from the underfunding issue. "

For the above reasons I said that I intended to uphold the complaint but subject to any responses I received from Ms J or Skipton. Ms J accepted my decision. Skipton said that they were happy to accept my findings and that they would make any adjustments to Ms J's mortgage required as a consequence of my decision so that they were in place for 1 July 2023.

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.

I've reviewed the evidence and note that both parties agree with my decision. In the circumstances I consider that my provisional decision represents a fair outcome to this complaint for the reasons set out in that decision. So, I uphold this complaint and require Skipton to adjust the balance on the capital repayment side of Ms J's mortgage account as set out in that decision.

Putting things right

Skipton Building Society should adjust Ms J's capital balance on the repayments side of her mortgage for the period before August 2021 as if she made the capital repayments that Skipton should have required her to make. For the period from August 2021 until July 2022, it should adjust the capital repayments balance as if Ms J was making additional payments of £110 per month off the capital repayment part of her mortgage.

My final decision

My decision is that I uphold this complaint and require Skipton Building Society to adjust the balance on the capital repayment side of Ms J's account as set out above and pay her compensation of £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 22 June 2023.

Gerard McManus
Ombudsman