

The complaint

Mrs S and Mr S complain that they have mortgage arrears due to an error by Bank of Scotland plc. Mrs S has dealt with the complaint. She asks that her credit file is corrected, and the arrears and any charges and interest are removed.

What happened

Mrs S called Bank of Scotland in early November 2022. She wanted to apply for further borrowing. Bank of Scotland said it would remove some historic arrears markers from her mortgage account so that an application for further borrowing could proceed.

Bank of Scotland told Mrs S her account was in credit by about £1,000. It said she could make underpayments and the difference would be taken from the credit. However, Bank of Scotland had assumed the payment for November 2022 had already been taken, which wasn't the case. Once the November payment was taken the remaining credit wasn't enough to cover the payment due in December 2022.

Mrs S made a nominal payment in December 2022. Bank of Scotland sent her a letter saying she owed about £250. Mrs S made a part payment in January 2023. Mrs S now has arrears of about £560. She's worried this will impact her credit file and lead to additional fees and interest. She says she's worked hard to clear her debts over the last few years, and this matter has made her upset and anxious.

Bank of Scotland accepts the information provided during the call was unclear. It said it hadn't recorded the arrears on Mrs S's credit file and offered £100 for the upset caused.

Our investigator said Mr and Mrs S hadn't been caused financial detriment. He said the arrears are due to payments they owed and didn't pay. However, the matter did cause upset. Our investigator said Bank of Scotland should pay a further £100, which it agreed to do. And put a note on Mr and Mrs S's account about how the arrears came about.

Mrs S didn't agree. She said she should be put back into the position she was in before the error – that is without any mortgage arrears. And she didn't consider £100 was enough compensation.

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.

Bank of Scotland made an error. The information it gave Mrs S in November 2022 led her to believe she could make underpayments of up to £1,000 without her account falling into arrears. In fact, once the payment due in November 2022 was processed, the remaining credit was about £375.

Mrs S said she made the payment for November 2022 in advance, so she doesn't think it's right that this was taken from the £1,000 credit. I think what happened here is that the

payment Mrs S made at the end of October 2022 was included in the £1,000 credit.

Mrs S made a nominal payment only in December 2022. After the remaining credit was used she owed about £250. Mrs S also made an underpayment in January 2023. As a result, she had arrears of about £560.

I don't think it's fair and reasonable to require Bank of Scotland to waive the arrears. I've explained why below.

- Mr and Mrs S aren't "out of pocket". Bank of Scotland didn't make an error when allocating payments to the account. The arrears came about because payments to the account weren't made in full when they were due.
- Mrs S missed a payment in December 2022 because of the unclear information she was given in November 2022. She was alerted to this in mid-December 2022, when Bank of Scotland wrote to her saying she'd missed her monthly payment and owed about £250.
- After receiving the letter, Mrs S contacted Bank of Scotland to check what had happened. It told her that a large part of the £1,000 credit was used for the payment due in November 2022.
- By late December 2022 Bank of Scotland had given Mrs S correct information about her account. That is, she needed to make a payment of about £250 to make up the payment due in December 2022. And she needed to make a full monthly payment in January 2023.

While I don't think that Mr and Mrs S are out of pocket, I do think that Bank of Scotland should pay compensation for the upset this caused to Mrs S.

It must have been upsetting for Mrs S to be told in November 2022 she had a £1,000 credit and could make underpayments up to this amount, only to be told in December 2022 her account was in arrears. This would have been especially upsetting for Mrs S for two reasons.

First, Mrs S needed money for repairs to the property. Mrs S spoke to the mortgage adviser in November 2022 about taking out further borrowing to pay for repairs to the property. She told Bank of Scotland in late December 2022 she might struggle with the payment due in January 2023. More recently, Mrs S told us she'd asked Bank of Scotland for a payment break so that she can pay for repairs to the property.

Second, Mrs S told us she'd worked hard to clear her debts over the last few years. Mrs S says she now has the worry of clearing the arrears on her mortgage account.

However, I must also take into account here that Bank of Scotland gave correct information to Mrs S in December 2022 about the payments she needed to make. She had the opportunity to make up the shortfall in the December 2022 payment before the end of that month and to make the payment due in January 2023 in full. I don't think I can fairly find that she didn't do so because she was relying on incorrect information. So while I understand Mrs S is upset about her account being in arrears, I don't think this is solely due to an error by Bank of Scotland.

Taking all this into account, I think it's fair and reasonable to require Bank of Scotland to pay compensation of £200 (in total) for the upset caused by the unclear information. Like our investigator, I think it should make a note on Mr and Mrs S's account about how the arrears came about.

Bank of Scotland said it reports mortgage arrears to the credit reference agencies when the arrears are more than a monthly payment. That's not the case here. Bank of Scotland said it didn't record the arrears or missed payments on Mrs S's credit file, and I haven't seen anything to suggest otherwise.

The arrears will need to be repaid. From what Mrs S has said, it seems unlikely she's in a position to repay the arrears in full immediately. I'd urge Mrs S to remain in contact with Bank of Scotland with the aim of agreeing an affordable arrangement for repaying the arrears. I'd expect Bank of Scotland to respond fairly and explore what options might be available to support Mrs S if she does have financial difficulties.

My final decision

My decision is that I uphold this complaint. I order Bank of Scotland plc to pay £200 compensation (in total) to Mrs S. If it's already paid the £100 it offered before the complaint came to us, it can deduct this. It should make a note on the mortgage account regarding how the arrears came about.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr S to accept or reject my decision before 20 December 2023.

Ruth Stevenson
Ombudsman