DRN-4250793

The complaint

Mr L complains that, despite having paid his mortgage for a little longer than envisaged when he got the offer from Clydesdale Bank Plc trading as Virgin Money, he still owed it more money than it had estimated in his offer. Mr L says Virgin must have got this wrong.

What happened

Mr L said he got a mortgage offer from Virgin in October 2017, for a 25 year mortgage with a fixed interest rate running until the end of December 2022. He said this offer included a detailed breakdown of how his payments would work, telling him how much he would owe by 1 December 2022.

Mr L redeemed his mortgage at the start of 2023, to move his borrowing elsewhere. He complained that Virgin told him then that he needed to pay more to redeem his mortgage in early January 2023 than its offer said he would owe at the start of December 2022.

Mr L said his offer assumed he would draw down the mortgage funds from Virgin on 1 February 2018, and his first payment would be 1 March 2018. The offer then estimated that he would owe £269,777.33 on 1 December 2022, after 58 monthly mortgage payments.

Mr L said his mortgage actually completed on 7 December 2017, and the first payment was made on 8 January 2018. So he'd been paying for a bit longer than Virgin envisaged when it worked out the details in his offer.

But Mr L's redemption statement asked for payment of £270,379.19 on 3 January 2023. Mr L said Virgin was now telling him he owed more money, after he'd made 59 monthly mortgage payments, than his offer said he'd owe after 58 monthly payments. So that couldn't be right.

Mr L appears to have based his remortgage request on an estimate of what his balance would be at the time he wanted to remortgage, which he had obtained from Virgin in late September 2022, rather than the redemption statement, which he received in early December 2022. So Mr L then needed to cover a shortfall in his new lending, in order to remortgage away from Virgin.

Mr L said he also noted that his offer was based on him borrowing £315,995, but his solicitor only received £315,300. He thought that meant he'd borrowed less than Virgin envisaged in its offer, which was another reason he ought to owe less now.

Mr L also said Virgin had collected two extra payments of £1,450 since December 2022. He said he'd got one of those back, but should have had two, plus the additional money he'd had to pay for the shortfall.

Mr L says he'd paid Virgin more than he'd agreed, and its calculations couldn't be accurate. He said he was expecting a refund of £3,716.

Virgin didn't think it had done anything wrong. It said Mr L's mortgage completed much earlier than envisaged, so it wouldn't match the estimates Virgin provided in that offer. It didn't think Mr L had made extra payments to his mortgage.

Mr L then said there wasn't any dispute over how many payments he had made, it was the balance he thought was wrong. He still thought his loan was for less money than envisaged in the offer. And he said Virgin had predicted he'd owe £269,777.33 on 1 December 2022, after 58 payments (including the first, much larger payment, which included interest paid in arrears from the start of the mortgage to the date of payment, as well as the usual interest paid in advance for the following month). So he still couldn't see how it could say now that he had paid more than this (59 payments, including the first larger payment) over a longer period, but ended up owing more, £270,299.19 after allowing for fees payable at redemption.

When this complaint came to our service, Virgin provided more information about the lending. It said that its loan offer was for £315,000 plus a £995 product fee which was added to the loan. It said that's why the offer mentioned a figure of £315,995. Virgin said the money for the product fee wouldn't go to his solicitor, that was never intended to be paid to Mr L. But it did pay Mr L a cashback amount of £300, which wasn't added to his loan.

Virgin said Mr L did draw down the mortgage funds earlier than the offer had assumed. He then made his monthly payments for the fixed interest rate period. That period ended on 1 January 2023, and Mr L redeemed his mortgage, to move his lending elsewhere.

Virgin said it provided a redemption figure of £270,379.19, for redemption on 3 January 2023. That included fees totalling £80. Importantly, Virgin also said that the redemption figure it provided on 7 December was based ONLY on payments it had received to date. So it didn't take account of Mr L's next monthly payment, which he subsequently paid, in mid-December. Virgin said that meant the redemption payment included a surplus, and it paid Mr L back an amount just over the amount he'd paid it in December 2022.

Virgin sent our service a copy of Mr L's original mortgage offer, the redemption statement it issued on 7 December 2022, and the full transaction history for Mr L's mortgage, including all the interest changed and all the payments he'd made.

Our investigator didn't think this complaint should be upheld. She'd previously explained that our service doesn't audit mortgages, so we wouldn't look at things in that level of detail. But she had looked at a breakdown of the figures involved and she thought the redemption figure was correct.

Our investigator explained that Mr L did borrow the amount set out in the offer, because he'd not accounted for the product fee of £995. She'd also done her own rough calculation, and she thought the figures Virgin had produced were right.

Mr L replied to disagree. He has produced a number of detailed calculations, which I have considered, but won't set out here. Mr L said he didn't think that the figures our investigator had given were right. He attributed the rough calculations our investigator had done herself, to Virgin, and said those were further evidence of errors on its part.

Mr L worked out what he thought his average monthly interest charge would be, and from that, how much his overall debt would reduce by, each month. He said that didn't match what Virgin had charged. His calculation of his loss was then £4,382.23, which he said included £2,901.98 of overcharged interest.

Mr L thought this was, at its heart, quite simple. More payment = reduced debt.

Our investigator asked Virgin about this, and it replied to summarise Mr L's mortgage. I won't set those details out in full here, because I understand our investigator then sent this information to Mr L. Briefly, Virgin worked out how much interest Mr L had been charged over the term of his lending with it, and how much he'd paid. Virgin said these figures tallied. And it noted that Mr L's fixed rate had come to an end on 31 December 2022, so for the last three days of his mortgage he paid Virgin's standard variable rate which was then 7.4%.

Virgin still didn't think it had got things wrong. Our investigator sent its calculations to Mr L, but he said this couldn't be right, because we'd accepted that Virgin's last set of figures was right, and this was different. Again, he appears to be attributing our investigator's own rough calculations to Virgin here. Mr L was very unhappy at being given two separate sets of figures, and said that it must be clear that Virgin hadn't got this right.

Mr L also said Virgin's most recent calculations were missing the interest he'd paid in December 2022 up to 3 January 2023, and that meant these calculations were also incorrect. And he thought he'd just been overcharged interest anyway.

Mr L said what Virgin had set out in its offer was why he'd decided to take out this mortgage, and if it was wrong, he should get compensation for that. Once again, Mr L averaged out the interest he'd been charged, and said that once he did so, he could see he'd been overcharged. He now thought Virgin should pay him £3,350.50.

Mr L said he wanted his complaint to be considered by an ombudsman. He then wrote again to summarise his case for me, saying again that he thought he'd been overcharged interest.

This time Mr L looked not only at the balance his offer estimated he would owe on 1 December 2022, contrasted with the amount on his redemption statement for 3 January 2023. He also pointed out that his offer predicted an Early Repayment Charge ("ERC") of £10,791.09 in December 2022, after 58 payments, but his redemption statement showed a ERC of £10,811.97, if his loan was redeemed before 1 January 2023.

Mr L said this was further proof that he'd been overcharged. And he said it was meaningless to compare Virgin's figures for the lifetime of the loan with its figures for his redemption, that wouldn't show up any overcharging. He said we had to assess the redemption statement against the loan agreement. He'd done that, and that's how he'd revealed the mistakes.

Mr L said this was like buying a car with a value of £20,000, setting a payment plan of £1,000 per month. One would expect the car to be paid off after 20 months. And he said that wasn't what had happened with his mortgage. Mr L said Virgin owed him £3,907.36. And this case was then passed to me for a final decision.

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 reached the same overall conclusion on this complaint as our investigator. I don't think Mr L's complaint should be upheld.

I'm aware I've summarised the arguments advanced as part of this complaint in less detail than the parties involved. No discourtesy is intended by my approach which reflects the informal nature of this service. I want to assure all parties I've read and considered everything on file. I'm satisfied I don't need to comment on every point raised to fairly reach my decision. And if I don't comment on something, it's not because I haven't considered it. It's because I've focused on what I think are the key issues.

I'd like to start by addressing some of the underlying assumptions that Mr L has made, in working out what he says Virgin has overcharged.

Mr L has based his figures on a calculation of average monthly interest over the time he was paying Virgin. But our service has sent him the detailed breakdown of his account, which shows that the interest payment reduces month on month. I don't think it's helpful to use average monthly interest as a basis for this sort of calculation.

Mr L also said that he thought this was simple. More payments = less debt.

Unfortunately, I don't think things are quite that straightforward in this case. Mortgages are a complex financial product. I think there are two key things to remember here.

The first is that Mr L isn't paying off the whole of this loan. While he was paying his mortgage with Virgin, Mr L reduced his debt, overall, by less than a fifth. So a lot of what Mr L pays every month, isn't reducing the balance that he owes. It's interest, the charge Virgin applies for lending Mr L money. This interest remains a significant part of the cost of the mortgage each month, particularly when there are still many years left on the overall term.

And the second thing to remember is that each month, a month's worth of interest is added to Mr L's mortgage, in advance. At this point, Mr L's debt goes up. Mr L then makes his monthly payment, reducing his overall balance. Each month this process repeats.

The effect of this, is that Mr L's mortgage debt doesn't reduce in a straight line. It dips and rises, each month. Interest is charged to his mortgage at the start of each month. At this point, his debt goes up. Then, later in the month, when he pays, his debt goes down again.

If Mr L were to miss a payment, his debt would then go up (when interest is added) and not go down again (no monthly payment).

There's no suggestion Mr L did miss a payment. But, importantly, Virgin assumed he would miss a payment, when it put together Mr L's redemption statement. It said it couldn't take account of any payments not yet made in that statement, so it assumed he wouldn't pay in December. (I don't think that's unfair or unreasonable, as an approach for Virgin to take. And I note that Virgin was very clear, in its statement, that it hadn't accounted for a December payment. It said Mr L should call back, to get a new statement, if he did pay in December.)

So I think that's why Mr L's redemption statement asked for more money than he expected. Because Virgin added the interest that Mr L would owe for all of December, and for the start of January (at a higher rate) into this overall debt. But it didn't add his December payment.

Mr L's said his offer document suggested on 1 December 2022, he would have an estimated loan balance of £269,777.33 in total, based on 58 payments. This is set out in his offer as the estimated balance on 1 December 2022, based on lending from 1 February 2018 until 1 December 2022, so 58 payments covering lending over 58 months and one day.

If we disregard, for simplicity, the fees of £80 that Virgin charged on redemption, and the final December payment which we know that Virgin received then returned, we're left with the following –

Virgin's redemption statement, said Mr L would owe £270,299.19. That's based on lending from 7 December 2017, to 3 January 2023 (but not including that December 2022 payment). So that total is based on 59 payments, covering lending over 60 months and 28 days.

Mr L made one more monthly payment than the offer envisaged, in this longer period, but this debt includes the cost of lending (his interest charge) for almost two months more. I think that's why the figures are higher than he expected. I don't think there's any reason here, for me to think that Virgin's calculations are wrong.

Virgin's redemption statement didn't include the December 2022 payment, which we know Mr L then made. I'm satisfied that Mr L only made this one payment after his redemption statement was produced, and that Virgin then refunded this money to Mr L.

I understand that Mr L may not be content with my conclusions here. I think Mr L is unhappy with the detail of Virgin's calculations, and it does appear as if he had hoped our service would audit his mortgage for him, as a first step towards then awarding him an amount that he considers he's been overcharged.

These are very complex calculations, requiring specialist knowledge and taking considerable time to recreate. Our investigator explained that our service doesn't audit mortgages. And that's right, it's just not compatible with our role as an informal dispute resolution service. I'm sorry to have to tell Mr L that he will need to engage an auditor if he wants this level of forensic examination of this mortgage.

All I can do is look at a high level at the issues raised. I've considered the points Mr L has raised, to the extent that it's appropriate for our service to do so, and those don't seem to me to show that Virgin has clearly overcharged Mr L. So I don't think it would be fair and reasonable for our service to order Virgin to make the additional payments that Mr L wants.

I understand Mr L may well be very disappointed, both by the level of interrogation which our service can apply to the figures we've received, and with my overall conclusion, but I don't think this complaint should be upheld.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 17 January 2024.
Esther Absalom-Gough
Ombudsman