

The complaint

Miss Z is unhappy at the way HSBC UK Plc applies the payments she makes to her mortgage account, which keeps leading to her falling into arrears, even though she is paying the amount the HSBC banking app is telling her to pay.

To settle the complaint, Miss Z wants HSBC to correctly apply her payments to the mortgage, and to stop contacting her about arrears.

What happened

I do not need to set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Miss Z being identified. So for these reasons, I will instead concentrate on giving a brief summary of the complaint, followed by the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

Miss Z has an interest-only mortgage with HSBC which is in two parts. Both parts of the mortgage are on variable rates of interest. The main part of the mortgage is on a two-year tracker rate of 1.69% above Bank of England base rate. The second part of the mortgage is on a rate of 1.75% above Bank of England Base Rate. The mortgage terms and conditions specify that the monthly repayments are to be made by direct debit.

Miss Z makes her mortgage payments manually, rather than by direct debit. The due date is the 12th of each month. Miss Z logs onto the HSBC app on that day, looks at the amount of interest debited and then pays that amount into the account.

However, this has led to the account falling into arrears from time to time, because interest is charged on a daily basis and so will vary from month to month, depending on how many days are in the month.

Miss Z complained about this to HSBC in 2022. The bank issued a final response letter on 27 October 2022 explaining how the arrears had accrued. The letter gave Miss Z six months to complain to our service, but she didn't do so.

Miss Z complained again in June 2023 about the same issue. She said she'd cleared all arrears by February 2023, but then HSBC contacted her saying her account was in arrears. HSBC issued its final response on 26 June 2023 explaining again how payments were applied to the account.

Miss Z raised her complaint with our service. An Investigator looked at what had happened. Overall she was satisfied that HSBC's account history was correct, and that the arrears had accrued because Miss Z had paid what was due on the day, as shown in the app, and that this was not an accurate record of the actual monthly repayments.

There had been various interest rate changes since Miss Z's last complaint in October 2022, and so the Investigator thought Miss Z should make payments in line with the letters HSBC sent about changes to her monthly repayment, rather than relying on the daily interest shown on the app.

The Investigator also noted that payments made before the due date (12th of the month) were applied to the account as overpayments and capital reductions, as a result of which a monthly payment would then also be due.

The Investigator explained to Miss Z that, after an interest rate change, HSBC will write to Miss Z telling her what her new monthly repayment will be, and she will need to pay that amount each month, until the next interest rate change, when HSBC will write to her again. But because Miss Z was instead only paying the amount of daily interest accrued as at the 12th of each month, this is why the arrears had accrued.

Miss Z didn't agree with the Investigator's findings and asked for an Ombudsman to review the complaint.

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 will state at the outset that because Miss Z didn't bring a complaint to us after the final response letter dated 27 October 2022, I am not looking at any complaint points covered in that letter. This decision relates only to events after 27 October 2022.

I've reviewed the payment history for the account, and taken note of what Miss Z has said about the amount she pays towards the mortgage, and her reasons for this. Miss Z is relying on the information contained in the HSBC app, which shows the daily accrual of interest on the mortgage. However, I'm satisfied that this is not what Miss Z is required to pay each month. This is because not every month has the same number of days, and so the interest applied will vary from month to month. The letters sent by HSBC after each interest rate change state the correct payments to be made each month and, as the Investigator explained, the monthly payments will not vary until the next interest rate change.

Because Miss Z has on some occasions not paid the full amount, or paid early (where the payment is classed as an overpayment), a shortfall has arisen, albeit a relatively small amount. The Investigator wondered whether HSBC could alert Miss Z to any payment shortfall via the app. However, I'm satisfied HSBC isn't required to change its app in this way to accommodate Miss Z's preference to make manual payments. Banking is largely an automated process, and so this would require someone to manually monitor Miss Z's account, which isn't feasible. It's therefore not reasonable to expect HSBC to do this.

Rather, it's up to Miss Z to manage her payments, and to ensure she pays the amount HSBC has told her by letter is the correct monthly payment, rather than an *ad hoc* amount each month based on the daily interest accrual shown in the app. The issue is easily resolved, however; Miss Z can set up a direct debit, which would take the full amount of the payment required on the due date, which would avoid her inadvertently paying less than is required.

My final decision

My final decision is that I don't uphold this complaint.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any discussion about it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss Z to accept or reject my decision before 30 April 2024.

Jan O'Leary
Ombudsman