

The complaint

Ms K complains that The Co-operative Bank Plc (“Co-op”) isn’t administering her offset mortgage how she wants. She says the mortgage is now fully offset by her savings, and she wants Co-op to use the interest on her savings to cover her monthly mortgage payments.

What happened

Ms K has an interest only mortgage with Co-op. She also holds savings with Co-op, and I understand that those savings now exceed the amount she owes on her mortgage.

Ms K said she wanted to use the interest earned on her savings to pay the interest Co-op charges her each month on her mortgage. But Ms K said that isn’t what Co-op was doing. Instead, it was insisting she paid her mortgage each month, and the savings interest she earned was being used to reduce the capital (the amount she’d borrowed on her mortgage) instead. Ms K said she wanted to not be paying any interest.

Co-op said that just isn’t how this mortgage works. The money in Ms K’s savings is used to reduce the capital amount she owes, and the terms of her mortgage explain that she needs to keep making a monthly mortgage payment. Although Ms K is on an interest only mortgage, so the payments she makes to Co-op aren’t reducing the amount she owes it, Co-op has sent our service statements that do show Ms K’s total mortgage debt reducing over time.

Co-op says that even though Ms K’s savings are now a little more than her mortgage, Ms K does need to keep making her monthly payments, and it said it hadn’t advised her otherwise. But it said Ms K had stopped her monthly payments. The reasons for that are the subject of this complaint. Co-op told us it was also currently dealing with a second complaint from her, subsequent to this one, which was about the impact on Ms K and on her credit file of having stopped making her monthly payments.

Our investigator didn’t think this complaint should be upheld. She said that the terms of this mortgage set out that Ms K has to make a monthly mortgage payment, no matter what the balance of her savings account is. So she thought Co-op was managing the mortgage in line with the terms Ms K had agreed to. And she thought that Co-op had communicated clearly with Ms K about this.

Ms K didn’t agree. She wanted her complaint to be considered by an ombudsman. Ms K said that Co-op had also now defaulted her mortgage, which affected her credit rating, and her credit card providers had decreased her limits. Ms K thought that wasn’t appropriate when Co-op was receiving mortgage payments, although in a different form.

This case was then passed to me for a final decision. And I then reached my provisional decision on this case.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

I think it would help if I start by explaining, at a very high level, how offset mortgages can work, then look at how this particular mortgage appears to me to work.

Offset mortgages use interest earned on someone's savings, to help pay their mortgage. But they don't all do that in the same way.

Some offset mortgages focus on helping with monthly payments, so they use the interest on the savings to pay some or all of the interest charged each month.

Others use those same savings to reduce the term of the mortgage, so the borrower still makes a full monthly payment, and the interest from the savings is used to pay back what's been borrowed. This means that a repayment mortgage can be paid back some years earlier than the time agreed at the outset.

Some lenders operate both sorts of offset mortgage. But not all of them. So borrowers don't always get a choice of how their offset mortgage works.

I've looked at the terms of this particular mortgage, and I can see Co-op only offers one sort of offset mortgage. I know that Ms K would like the interest from her savings to be used to reduce her monthly payments. But that's not possible with this mortgage. Under the terms of this mortgage, Ms K cannot choose how the interest from her savings is used. These mortgage terms set out that the interest from her savings will be used to reduce the amount she owes. It won't be used towards her monthly payments.

The terms of this mortgage are complex. They set out that interest on the savings account will be used to reduce the interest due on the mortgage. This may be what has caused confusion in Ms K's case. But, importantly, those terms also say this –

Your Monthly Payment is not dependent on any balance in your Linked Savings Account and will not vary depending on the balance in the Linked Savings Account. Your Monthly Payment will not change unless there is a change in your Interest Rate or we otherwise agree with you.

So the effect of these terms does seem to me to be that the interest which is earned on Ms K's savings will be used to reduce the balance of her borrowing. We know that Ms K has very substantial savings to offset against her mortgage. But the mortgage terms are clear that it doesn't matter how much Ms K has in savings, she still needs to make her monthly payment, in full.

I don't think it's unfair or unreasonable for this mortgage to operate in this way. I don't think Co-op has to do what Ms K wants, with her savings interest. And considering the above, I do think Ms K needs to make monthly payments towards this mortgage, even if it is fully offset.

Ms K's said that now Co-op has defaulted her mortgage, and affected her credit rating, after she stopped her mortgage payments. I think that happened mainly because, at one point, Co-op told Ms K that her mortgage worked very differently.

I can see that Co-op has made a number of efforts since, to correct its earlier mistake. But, Co-op doesn't appear to have recognised that between May and July 2023, it provided advice to Ms K about how this mortgage operates which appears to have been quite misleading, if not simply wrong. This has led Ms K to believe that her mortgage ought not to require any monthly payments. I don't think it was unreasonable for Ms K to reach that view, because that does appear to be what Co-op told her.

In a letter dated 12 July 2023, Co-op does seem to me to have told Ms K that the interest on her savings was being used to cover her monthly interest payments. It set out its responses to the questions Ms K had asked, including this –

The interest adjustments; how are these being used? Are they being used to reduce capital or interest and capital?

Your mortgage is on the full interest only basis. Therefore the adjustments will only reduce the interest.

And it went on to say this –

With an off-set mortgage, the interest from the savings account covers the previous month's mortgage interest, so for example, the interest applied in February will cover January and the interest applied in March will cover February.

And in the same letter, it responded to Ms K's question asking why, if her monthly mortgage payments were being covered by the interest from her mortgage, Co-op was still collecting a direct debit payment for this mortgage from her each month. Co-op said this –

Why is the direct debit still being collected?

Cancellation of the direct debit is not our responsibility. This can be cancelled via your own Bank or by calling 08000 288 288, following which a letter of confirmation of the cancellation will be issued.

So it looks as if Ms K stopped her monthly mortgage payments, because Co-op told her she could, and even advised her on how to do so.

This letter of 12 July 2023 does not seem to me to accurately represent how this mortgage works.

Co-op has clearly tried to set out for Ms K since then, how her mortgage really works. But when it did so, it doesn't appear to have recognised that the advice it previously gave Ms K was entirely wrong, and quite misleading.

On 27 November 2023, Co-op sent Ms K a letter which responded to her complaint that she was told that when her savings in her offset savings account were equal to the amount owed on her mortgage, Co-op would stop taking mortgage payments.

In response to this, Co-op said –

We didn't give you incorrect information so I've rejected this aspect.

Co-op's contact notes suggest that when it previously listened back to calls, it thought Ms K had previously been given incorrect information. More recently, it said a recording of a call of 5 July 2023 was no longer available.

But even if Ms K wasn't misadvised on a call to Co-op between May and July 2023, I do think the letter that our service has seen, sent to her on 12 July, was misleading. I think that letter gave Ms K the impression she could simply cancel her monthly mortgage payments.

I think Co-op ought to have recognised its previous mistaken advice, in order to explain

clearly to Ms K that she does need to keep making her monthly payments to this mortgage. I think it's likely that this complaint has been prolonged, and that Ms K's non-payment has been prolonged, because Co-op didn't do that.

Co-op also says that Ms K's credit file will now be affected by her non-payment. I also note that in November 2023, Co-op said that Ms K's total mortgage debt hadn't actually increased. However, it does seem likely that Co-op has reported mortgage arrears to credit reference agencies, after August 2023 when Ms K cancelled her monthly direct debit. Ms K has since complained about recording her missed payments with credit reference agencies, and the content of the collections letters she has received since she cancelled the direct debit. She told us this has affected the credit she can get elsewhere.

I'm aware that Co-op is still considering its position on that further complaint. But it does appear to me as if these issues are very closely linked. And, on the evidence I've seen to date, my current view is that I think it would be unfair for Ms K's credit file to show arrears on this mortgage, because I think that one of the reasons that Ms K cancelled that direct debit in August, is because Co-op invited her to do so, in its letter of 12 July.

I also haven't been able to see, in the correspondence our service has received to date, that Ms K was clearly warned about the credit file impact of not making her monthly payments. The first mention I can see, in writing, that Ms K's credit file may be impacted, is in Co-op's letter of 27 November, which says her monthly mortgage payments for September, October and November *"have not been received and therefore show as an arrears amount so you may incur additional daily interest and this may affect your credit rating."*

I haven't seen that Co-op has provided Ms K with the letters I would have expected to be issued when someone falls into arrears on their mortgage. That may simply be because those haven't yet been shared with our service, so Co-op may forward additional evidence on this point if it wishes, including any letters it has sent, and the reporting it has made to Ms K's credit file. And I should caution both sides that my view on this issue may change, if Co-op does have this further evidence. But on the evidence I've seen to date, I don't currently think it would be fair if arrears have been recorded on Ms K's credit file.

I should stress that my provisional decision does not require Co-op to operate this mortgage in the way that Ms K wants. Co-op doesn't use the interest on Ms K's savings to pay the interest on her mortgage, and that's not a mistake. The mistake Co-op made here was when it suggested to Ms K that she didn't need to make monthly mortgage payments. And I think that a fair and reasonable outcome to this complaint, should focus on putting that mistake right.

Ms K does need to make her monthly payments, going forward, unless she redeems this mortgage. And she will need to make up the arrears payments she has missed, as those payments do seem to me to be required under the terms of the mortgage agreement she entered into.

Ms K has been clear in her conversations with Co-op that she would be able to repay the arrears on her mortgage, as a lump sum. And it does seem as if she has substantial savings which she could use to do this. So my provisional decision will require Co-op to remove any negative reporting on Ms K's credit file for this mortgage, from August 2023 until a month after the date of my decision, provided that during that time Ms K makes a lump sum payment to clear the arrears on this mortgage.

I also think that Co-op should pay Ms K some compensation for what has gone wrong here, as this has clearly caused Ms K concern and stress. My provisional decision is also that Co-op should pay Ms K £500 in compensation.

I invited the parties to make any final points, if they wanted, before issuing my 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.

Neither side has replied to my decision with any further evidence or argument, and I haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that The Co-operative Bank Plc must pay Ms K £500 in compensation. The Co-operative Bank Plc must also remove any arrears markers from Ms K's credit file from August 2023 to the date of the arrears payment, provided that Ms K clears all the arrears in place on this mortgage within a month of the date of my final decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 4 July 2024.

Esther Absalom-Gough
Ombudsman