

The complaint

Ms F has complained about the way payments made to her mortgage account with National Westminster Bank Plc (NatWest) have been applied.

To settle the complaint, Ms F wants NatWest to be held accountable for its actions and lack of support. She would also like an assurance from NatWest that its errors will stop, and to be paid an appropriate level of compensation for the anxiety and distress she's suffered.

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 Ms F 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.

Ms F has a mortgage with NatWest, and is in receipt of Support for Mortgage Interest (SMI) from the Department for Work and Pensions (DWP). The DWP payment accounts for part of the monthly payment, with the balance paid by Ms F by direct debit.

In December 2023 the DWP increased its payment, but NatWest still took the same direct debit from Ms F, resulting in her overpaying by £34.70. Ms F's request for a refund wasn't immediately processed.

NatWest then failed to adjust the direct debit correctly, leaving a payment shortfall. When Ms F pointed this out, NatWest told her to cancel the direct debit, which she did. The direct debit was reset for February 2024. However, again NatWest made an error, and took the full amount of the direct debit, with no account for the DWP payment. This left Ms F short of funds. Ms F made a claim under the Direct Debit Indemnity and received a refund the same day.

Ms F made a manual payment for February 2024 online. However, both this and the payment made in January 2024 were applied to the capital balance, rather than treated as monthly repayments. This is because the options for online payments gave only two options for Ms F to select – either overpayment or missed payment. Ms F selected overpayment each time, which meant the payments were applied to the capital balance.

The effect of this was that it appeared the mortgage was in arrears, and Ms F started to receive collections calls and letters, which caused her some distress. NatWest adjusted the payments on 21 March 2024, after Ms F had complained. Ms F was very upset that she'd been treated as if she was in arrears, and her credit file had been impacted.

NatWest upheld the complaint and offered Ms F £350 compensation. NatWest has also removed any adverse information from Ms F's credit file.

Ms F didn't think this went far enough and brought her complaint to our service. An Investigator looked at what had happened. He noted that this was the second complaint within a fairly short period that Ms F had raised with us about NatWest's administration of the mortgage, and that similar issues had arisen in relation to the application of payments. He thought that the £350 offered by NatWest didn't go far enough, as it didn't take into account the distress caused by NatWest moving the account into collections and recording arrears. He asked NatWest to increase its offer of compensation to £500, which the bank agreed to do.

Ms F didn't think £500 adequately reflected the impact of NatWest's repeated failures, and the ongoing distress she's experienced, given that she is a vulnerable customer. Ms F says that, as she's had to raise this issue with our service twice in the past 18 months, she's *"unable to live like a normal person for the constant fear and anxiety of having to go through it over and over again in future"*. Ms F asked for an Ombudsman to consider 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'll start with some general observations. We're not the regulator of financial businesses, and we don't "police" their internal processes and systems, or how they operate generally; that's the role of the Financial Conduct Authority (FCA). We deal with individual disputes between businesses and their customers. We have no power to sanction, punish or fine businesses – that's the role of the FCA.

I am aware that there were also issues last year that Ms F had to raise with our service, where NatWest hadn't properly applied payments to the account. However, that complaint was resolved and Ms F accepted the compensation offered by the bank on that occasion. I can't reconsider that complaint here.

NatWest isn't informed by the DWP when SMI payments are due to change. However, I think that NatWest should make sure, when Ms F tells it of future changes to SMI, that it correctly adjusts her direct debit. The DWP makes SMI payments every four weeks (so thirteen times a year) whereas mortgage payments are due monthly (twelve times a year), and this doesn't make it easy for mortgage lenders to calculate how much the borrower also needs to pay. I think that could well explain why the January 2024 direct debit recalculation was incorrect.

The underlying issue that led Ms F to contact us on this complaint – the errors with the direct debit in January and February 2024 – has been resolved. NatWest has confirmed that the direct debit has been correctly re-set, and it has removed the information on Ms F's credit file. I agree with the Investigator that this should also include showing the mortgage as up-to-date in January 2024 and February 2024.

I understand Ms F is now also aware that selecting 'overpayment' rather than 'missed payment' when making a manual payment is likely to result in the payment being incorrectly applied.

Therefore the only issue that remains is the amount of compensation that NatWest should pay to Ms F for its errors.

I've taken careful note of what Ms F has said about the impact of this on her. I'm aware she has vulnerabilities (of which NatWest is also aware) and I've noted Ms F's worry that further issues with the account might arise in the future, and that this is causing her distress. However, I can't award compensation for something that hasn't happened – and which might not happen at all. I can only look at what's actually happened, and what an appropriate award of compensation should be for this.

Overall, I think a payment of £500 is fair, reasonable and proportionate in the circumstances. I appreciate it was very upsetting for Ms F to be contacted by Collections, and I know she was concerned her credit file was impacted. The evidence available to me doesn't suggest that Ms F has been refused credit as a result of any entries by NatWest on her credit file arising out of this incident.

Putting things right

To settle this complaint, I direct National Westminster Bank Plc to do the following:

- if it has not already done so, remove any adverse entries on Ms F's credit file for the months of January 2024 and February 2024;
- pay compensation of £500.

My final decision

My final decision is that I uphold this complaint and order that it be settled as detailed above.

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 Ms F to accept or reject my decision before 28 August 2024.

Jan O'Leary
Ombudsman