

The complaint

Mr and Mrs W's complaint relates to a mortgage they have with Bank of Scotland Plc trading as Halifax (BoS). They are unhappy that from October 2023 BoS reduced the contractual monthly payment (CMP) on the mortgage, which means they will owe more at the end of the fixed interest rate product they have than they otherwise would.

What happened

Mr and Mrs W took out their mortgage with BoS in 2019 over a term of ten years. They attached a five-year fixed interest rate product to it, which expired at the end of June 2024.

The 'Information about your mortgage' booklet provided to Mr and Mrs W details concessions about overpayments:

'If you have a repayment mortgage, overpayments will not automatically reduce your mortgage term. This is because whenever we recalculate your monthly payment, for example at an interest rate change, we set your new monthly payment so that it repays your loan over the term we originally agreed with you.'

You may want to make regular overpayments to pay off your loan sooner but don't want to ask us whether you can formally change the term of your mortgage agreement. If so, you will need to remember to review the amount of the monthly payment whenever we recalculate it and increase the amount of your regular overpayment.'

In 2019 BoS sent a letter out to all its mortgage customers to tell them that it would be introducing a yearly check to ensure that their payments were enough to pay off everything they owed, except for arrears. It confirmed that the monthly payments might change if overpayments had been made.

The annual statements sent to Mr and Mrs W thereafter reminded them that BoS intended to do the CMP checks that it had told them about in 2019. BoS confirmed checks had not yet started, and that it would tell Mr and Mrs W when they did.

At the beginning of January 2022 Mr and Mrs W made an overpayment of just under £9,000 to the mortgage. The CMP remained the same following the overpayment.

In May 2023 BoS wrote to Mr and Mrs W to inform them that it would shortly start doing the additional annual check on their mortgage payments. This was to ensure the amount they were paying monthly was enough to repay the mortgage at the end of the term.

The check was completed in time for the annual statement sent to Mr and Mrs W on 2 September 2023. This informed them that from October 2023 their CMP would reduce. This was because of the overpayment they'd made the previous year reducing the amount that needed to be repaid over the remaining term.

Mr W had two telephone conversations with BoS about the change to the CMP, but BoS has only been able to provide a recording of the earlier call, and not the one with a manager the

following day. In the available call Mr W was told that the review could not be stopped. He was also initially told that if he wanted to keep paying the same amount toward the mortgage he and Mrs W would have to meet with a mortgage adviser and formally change the term of the mortgage. Later in the conversation it was mentioned that the monthly payment could be increased using the overpayment allowance. Mr W was interested in the option and asked if BoS could run the maths. However, when Mr W then repeated that he didn't understand how BoS had come up with the new CMP the conversation was moved on to the arrangement of a call-back from a manager. It appears that the outcome of the follow-up conversation was that a complaint was logged.

BoS responded to Mr and Mrs W's complaint in a letter of 18 September 2023. It didn't uphold the complaint. It explained that it automatically recalculated CMPs on the mortgage anniversaries to ensure that customers were paying the correct amount to repay the mortgage over the remaining term. The overpayment of January 2022 meant that they owed less than expected when the CMP was set and so it was reduced to reflect the lower amount they needed to pay over the remaining term.

Mr and Mrs W were not satisfied with BoS' response and asked this Service to consider their complaint. When we told BoS that the complaint had been referred to us it confirmed that Mr and Mrs W had the option to increase their monthly payments back up to the previous level, but that the additional amount would be considered overpayments and come out of the 10% allowance.

One of our Investigators considered the complaint and she concluded that BoS had managed the mortgage in line with the terms and conditions and it was able to change the CMP as it had done. She also highlighted that Mr and Mrs W had the option to increase their monthly payments back to the previous level using the overpayment allowance, and they should contact BoS if they wanted to do so.

Mr and Mrs W didn't accept the Investigator's conclusions and asked that the complaint be referred to an Ombudsman. They reiterated that they had been prevented from making payments at the level they had previously, which would result in them paying more interest over the remaining term. Mr and Mrs W thought that it was unfair that BoS had introduced the change it had. They said that the fact monthly overpayments could have been made was irrelevant from their perspective, although they didn't explain why they thought this. They also highlighted that neither BoS nor this Service had asked them whether they wanted to increase the monthly payments back up to their previous level. Rather, they had been told that they couldn't do so.

I issued a provisional decision on 4 July 2023 in which I set out my conclusions and reasons for reaching them. Below is an excerpt.

'I will firstly comment on the process that BoS applied and resulted in the change to Mr and Mrs W's CMP. As BoS has explained, there has been over recent years an emphasis placed on lenders acting responsibly and supporting their customers. Part of that is ensuring that a borrower is in the position to be able to repay their mortgage by the end of the term. To do this, BoS is reviewing all of its mortgages to check that the CMP being paid on repayment mortgages, making certain assumptions about interest rates going forward, is going to be enough to clear the capital debt by the end of the term. However, if the mortgage balance is lower than would usually be expected at the time of the review, that would also be reflected in the calculation and the CMP would be reduced.'

While the outcome of the review was unwelcome for Mr and Mrs W, as it meant they wouldn't be paying as much of the capital off their mortgage on a monthly basis, I can't find that BoS was wrong to review their CMP.

However, I don't think the communications once Mr W questioned what was happening and expressed the desire to continue to pay the higher amount were what they should have been. It was clear from what Mr W said that what he wanted to come out of the conversation was to be able to pay the same amount on a monthly basis as he had been. There were two potential ways for Mr and Mrs W to be able to do this – formally reducing the term of the mortgage or adding a regular overpayment amount to their monthly payment, subject to the overpayment limit.

Initially, BoS only mentioned the first of these options. When the second was mentioned, Mr W was clearly interested and asked if BoS could provide more information. That request was not responded to and the conversation was moved on to arranging a call-back from a manager. Having considered the content of this conversation and Mr and Mrs W's comments during the investigation of their complaint, I think not giving Mr W more information about the option to overpay on a monthly basis was a failing on BoS' part. I think if BoS had followed through on Mr W's interest in making regular overpayments it is likely that this is what would have happened, and the complaint probably wouldn't have been made. I can only conclude that BoS failed to communicate effectively with Mr and Mrs W and act in their best interests.

In September 2023 Mr and Mrs W's mortgage balance was just over £58,000 and the new CMP was £304.66 lower than they had previously been paying. As such, the 10% overpayment allowance available would have been more than adequate for Mr and Mrs W to be able to make the overpayments they wanted to over the remaining term of their fixed rate.

When this Service awards redress its aim is to place a complainant in as close a financial position as possible to that which they would have been in, but for the error on the part of the financial business. In this case, that would be for Mr and Mrs W to have made monthly overpayments of £304.66 from 1 October 2023 to 1 June 2024 inclusive. If Mr and Mrs W want to now make those overpayments as a lump sum, BoS should recalculate the mortgage balance by applying the funds as though a monthly payment of £1,146.42 was made during the relevant period.

I am satisfied the failing in communication on the part of BoS has caused Mr and Mrs W inconvenience and frustration, such that it is appropriate for BoS to pay them some compensation. Having carefully thought about the issues and the timescale involved, I consider £250 would be a fair and proportionate amount.'

Mr and Mrs W accepted my provisional decision.

BoS informed us in response to my provisional decision that Mr and Mrs W had repaid their mortgage on 2 July 2024. In light of this, it asked what we would require of it to settle the complaint.

In light of the mortgage having been redeemed, I reconsidered how the redress due Mr and Mrs W should be calculated. It was confirmed to both parties that BoS should calculate what the redemption figure would have been on 2 July 2024 had Mr and Mrs W made the monthly overpayments I had concluded they would have paid between 1 October 2023 and 1 June 2024. To this figure it should add the amount of the overpayments. BoS should then compare this with the actual redemption figure and pay Mr and Mrs W the difference – that being the difference between what they should have paid and what they actually paid.

It was confirmed that I had considered whether interest should be paid on the resultant figure, but as Mr and Mrs W had had use of the overpayment money, that would balance out the small amount of interest that could be added from 2 July 2024.

BoS asked for clarification that the calculation was effectively to determine the additional interest Mr and Mrs W had paid over the relevant period. It had worked out what that amount was – £23.21 – and confirmed it was willing to refund that amount to Mr and Mrs W.

Mr and Mrs W accepted the revised redress.

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.

As both parties have accepted my provisional decision and have raised no concerns about the change in redress, I see no reason to depart from my provisional conclusion that this complaint should be upheld.

Putting things right

BoS should calculate what the redemption figure would have been on 2 July 2024 had Mr and Mrs W made monthly overpayments of £304.66 each month between 1 October 2023 and 1 June 2024 inclusive. To this figure BoS should add the total amount of the overpayments that would have been made. BoS should refund to Mr and Mrs W the difference between that sum and the amount they actually paid to redeem the mortgage. BoS has confirmed this sum to be £23.21.

In addition, BoS should pay Mr and Mrs W £250 compensation.

My final decision

My decision is that I uphold this complaint in part. I order Bank of Scotland plc trading as Halifax to settle the complaint as detailed in 'putting things right' above.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs W to accept or reject my decision before 4 September 2024.

Derry Baxter
Ombudsman