

The complaint

Mrs H complains that Clydesdale Bank Plc (trading as Virgin Money) caused delays during the process of obtaining a new interest rate product on her residential mortgage. She says that this has led to her incurring additional interest and payment arrears, and to an adverse impact on her credit file.

What happened

Mrs H has a residential mortgage with Virgin Money which is split into two parts – ‘Part 1’ is on a capital repayment basis and ‘Part 2’ is interest only. The fixed interest rates that applied to each part of the mortgage were due to end on 31 October 2023, so Mrs H contacted Virgin Money to enquire about her options. Virgin Money booked an appointment to take place on 22 August 2023 for Mrs H to speak to one of its mortgage advisers.

Virgin Money called Mrs H on 17 July 2023. This was to discuss a new product for a separate buy-to-let mortgage she held with Clydesdale Bank at the time, on which the term had ended. During this call Mrs H said that she was thinking about taking her residential mortgage somewhere else. Virgin Money agreed with Mrs H that it would send details of its products to her by email.

Mrs H called Virgin Money on 24 July 2023 to obtain the outstanding balance for both parts of her residential mortgage. Mrs H also asked about the balance of her buy-to-let mortgage, which she had previously complained about. And she asked for someone from Virgin Money’s mortgage department to call her about a new product. The agent said they could arrange that.

Mrs H said she hadn’t heard from Virgin Money by 9 August 2023, so she sent Virgin Money an email asking why she hadn’t heard from it. Virgin Money has said that it had started a new email process and sent an email to Mrs H about this on 18 August 2023. It’s said it didn’t get a reply to this, so it called Mrs H and she asked to change Part 1 of her residential mortgage to interest only under the Mortgage Charter. It has said it sent a further email to Mrs H on 21 August 2023 but didn’t receive a response from her. Mrs H has said that she finally spoke to an adviser in September 2023, and she has said she agreed to take an offset mortgage product.

Several phone calls took place between Mrs H and Virgin Money in September 2023. Mrs H explained that she was looking to sell her home and had arranged a bridging loan with another lender to enable her to purchase a new property, so she didn’t lose it. But before she could take out the bridging loan, she needed Virgin Money to consent to the bridging finance provider taking a second charge over the property. Mrs H also requested redemption statements for both parts of her residential mortgage. It’s unclear whether Virgin Money provided consent for the bridging loan or if this is something Mrs H later went ahead with without consent.

Mrs H called Virgin Money on 5 November 2023 and said she hadn’t heard anything about changing her mortgage. The agent apologised if she hadn’t received a call about her appointment in August and said there weren’t any notes to see why that might have

happened. Virgin Money sent an email on 6 November 2023 confirming that a mortgage adviser appointment had been booked for the next day. Mrs H has said she spoke to Virgin Money's Financial Care Team following this email, and she was told by its agent that there had been issues and that a complaint would be raised.

Virgin Money emailed Mrs H again on 7 November 2023, providing her with a list of products available for her to apply for and it appears a call took place with an adviser on this date. On 14 November 2023, Mrs H emailed Virgin Money and asked for a "2 Year Discounted Offset" product to be applied to each part of her mortgage. She said that Virgin Money had messed things up and asked it to confirm that these products would be in place for December's monthly payment. Virgin Money replied a few days later and asked Mr H to confirm whether she wanted to pay the product fee upfront or add it to the loan, what her repayment plan was for the interest only part of her mortgage and if there was anything else she'd like to tell it.

Mrs H responded by email on 20 November 2023. She asked for the product fee to be added to her mortgage and said that her mortgage is part capital, part interest only. Virgin Money again asked for Mrs H to provide details of her repayment strategy for the interest only part of her mortgage and said it needed that information to progress her application. Mrs H said she will repay the interest only part of the mortgage upon sale of the property. Following this, Virgin Money issued a mortgage offer on 22 November 2023 based on the new offset products.

Virgin Money sent letters to Mrs H at the start of December 2023 to confirm her new payment amount. Mrs H emailed Virgin Money on 8 December 2023 to chase her product switch as she hadn't heard from it. Virgin Money replied to Mrs H on the same day and confirmed the new product had been put in place.

Mrs H raised a complaint on 8 January 2024. She said her mortgage rate ran out and she was going back and forth with Virgin Money trying to decide which product to take. She said this took a long time and she sent numerous emails and made phone calls to check the new product would be place for her December 2023 payment – and was told 'yes'. Mrs H has said she paid the required amount only to receive a letter saying that her account is in arrears. She is concerned that this shows she is in debt to Virgin Money and with how this would affect her credit score. She was also concerned that Virgin Money still had the wrong address for her in relation to the property name, despite asking for this to be changed.

Virgin Money said Mrs H's product switch completed on 3 December 2023 and that it sent Mrs H confirmation of her payments on 6 December 2023. These letters set out what her December payment should be for each part of the mortgage, and the amount it would be from January 2024 onwards. But it said the December 2023 direct debit payments were reversed by Mrs H and that she made manual payments of £2,336.40 (Part 1) and £1791.09 (Part 2) – which was less than the payment due in December 2023. Virgin Money felt that as the product switch completed on 3 December 2023, it hadn't done anything wrong. It said Mrs H's previous product ended on 31 October 2023 and wasn't renewed in time, so it was correct to apply its Standard Variable Rate. It said it sent Mrs H arrears letters in December because it hadn't received her full mortgage payment. It was unable to see this issue had impacted Mrs H's credit file but said if it had then it would be a true reflection of the management of the mortgage. It asked Mrs H to contact it to arrange a payment otherwise it may impact her credit file. Finally, Virgin Money accepted that it had made an error by not updating Mrs H's address on 7 November 2023. It offered to pay Mrs H £100 to recognise any distress and inconvenience this has caused.

Mrs H asked the Financial Ombudsman Service to look into her complaint. Our Investigator wasn't persuaded Mrs H was actively pursuing her product switch until November 2023. But he felt Virgin Money ought to have done more to make Mrs H aware that her product switch

needed to be agreed by 15 November 2023 for it to apply from 1 December 2023. He felt Virgin Money ought to have asked more questions when it spoke to Mrs H over the phone on 7 November 2023 or in the email it sent on the same day, but it hadn't provided evidence to show it had done so. Ultimately, he concluded on balance that Virgin Money had caused delays and that if it had made Mrs H aware of the deadline her rate switch needed to be agreed by, that it likely would have been in place for 1 December 2023. So, he said Virgin Money should backdate the rate switch to 1 December 2023, clear any adverse information reported to her credit file relating to this and that it should pay Mrs H a total of £300 to recognise the distress and inconvenience caused.

In response to the Investigator's view, Virgin Money said there was no impact on Mrs H's credit file and that the interest rate had been backdated to 3 December 2023 – it didn't agree to backdate it to 1 December 2023. But it agreed to pay Mrs H £300 in compensation.

Mrs H provided evidence showing an arrangement was being reported to her credit file in relation to this mortgage for three months. She said this had prevented her from obtaining a new car loan and that she had then defaulted on the finance she already had in place, as she was unable to repay the "balloon payment". She had also applied for a mortgage and had been rejected.

Our Investigator revised his position following additional information being provided by both parties. He said Virgin Money should backdate the interest rate product to 1 December 2023 and to amend Mrs H's credit file, removing the arrangement. He maintained his view that Virgin Money should pay Mrs H £300 to recognise the distress and inconvenience caused. But he didn't think Virgin Money should be held responsible for the issues Mrs H experienced with her car loan or the issues she had with a mortgage application.

Because agreement couldn't be reached, the Investigator arranged for the case to be reviewed by an Ombudsman. So the case has been passed to me to decide.

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.

Both parties have provided a timeline of events which are at some points contradictory and, in others, not supported by further evidence despite the Investigator allowing the parties ample time to provide it. Where the evidence is incomplete or contradictory I must consider what is most likely to have happened at the time, on the balance of probabilities.

The first question here is whether Virgin Money delayed Mrs H's interest rate switch application. Mrs H's testimony of what happened is that she was actively seeking a new interest rate product for her residential mortgage from July 2023 onwards and that she agreed to take out an offset product in September 2023. But, like the Investigator, I'm not persuaded Mrs H was actively pursuing a new interest rate product for her residential mortgage until around the start of November 2023 and I'll explain why.

I have listened to the available call recordings between Mrs H and Virgin Money in July 2023. Shortly after the mortgage adviser appointment had been arranged, Virgin Money called Mrs H in response to an email she had sent about seeking a new product on her buy-to-let mortgage which had matured. During this call, Mrs H said that she has a residential mortgage also with Virgin Money and was thinking about taking it somewhere else. Virgin Money's agent asked if Mrs H would like them to send her details of the products it has, which Mrs H was happy for it to do.

Around a week later, on 24 July 2023, Mrs H called to obtain details of her mortgages – both residential and buy-to-let – including the outstanding balances. And towards the end of this phone call Mrs H asked for someone to call her about a new product on the mortgage. Having listened to this call, my interpretation is that this request related to the matured buy-to-let mortgage, which had formed a large part of the conversation leading up to that point. I do not consider that Virgin Money should reasonably have understood that this request related to Mrs H's residential mortgage.

Both parties have said that they corresponded with each other during August 2023. Mrs H has said she called Virgin Money twice as of 9 August 2023 and later emailed Virgin Money but didn't receive a response. Virgin Money has said it emailed Mrs H and because it didn't receive a response it called her. It has said that when it spoke to Mrs H, she asked to switch Part 1 of her mortgage to interest only mentioning the Mortgage Charter. Unfortunately, there is limited documentary evidence to support each party's testimony about what happened during August 2023. So, I've had to consider what is most likely to have happened on the balance of probabilities.

I have listened to the available call recordings between Mrs H and Virgin Money in September 2023. The main content of these phone calls was Mrs H seeking consent from Virgin Money for another lender to take a charge over the property. This was so she could obtain a bridging loan to purchase a new property to move into and to give her time to sell her existing home, without losing the property she wanted to buy. She also requested a redemption figure for her residential mortgage, so she could see what she owed. There was no reference to seeking a new interest rate on her residential mortgage or mention of any problems she might have encountered in doing so. I think it's reasonable to expect Mrs H would have raised concerns during at least some of the several calls she had with Virgin Money if her intention was to change her interest rate product at that time and she hadn't heard anything.

I am not persuaded Mrs H agreed to take out a new offset product for her residential mortgage in August or September 2023, or that it was her intention to do so at the time. There is no indication of this during the calls I've listened to or in any of the contact notes. Instead, I consider it is most likely Mrs H's intentions at that time were focused on her decision to obtain a bridging loan and to sell her existing home. I think it is only once she had further considered those options that she decided to re-engage with Virgin Money about a rate switch on her residential mortgage. As a result, I don't think it's unfair that Mrs H's mortgage reverted to the standard variable rate from the end of October, as she hadn't put in place a new rate before then. I think it's most likely she didn't try to do that until around the start of November 2023, so I've gone on to think about what happened then.

Following contact from Mrs H around the start of November 2023, Virgin Money arranged an appointment with one of its mortgage advisers. Mrs H spoke to the mortgage adviser on 7 November 2023 at which point Virgin Money has said they discussed the options available with her. Around a week later, on 14 November 2023, Mrs H emailed Virgin Money and selected a product to be applied to each part of her mortgage. She also referred to Virgin Money having made errors leading up to this point and asked it to confirm the new products would be in place for the payment due in December 2023.

A few days later, Virgin Money asked Mrs H to answer some questions, including whether she'd like the product fee to be paid upfront or to be added to the mortgage. It also asked her to provide details of her repayment plan for Part 2 (interest only) of her mortgage. Mrs H first responded around three days later and following some further email exchanges, Virgin Money issued a product switch offer on 22 November 2023.

Virgin Money has said that for a product switch to complete on 1 December 2023 it needed

to be agreed – by which I interpret it means all required information provided and an offer issued – by no later than 15 November 2023. A lender could have thousands of mortgages at any one time where the product is due to be changed. And it takes time for a process like that to be completed. So, I don't think it's unreasonable for a lender to apply a 'cut off' date for a product switch to apply by the first of the month, to ensure it can process the changes made before that date in time.

In this case, Mrs H contacted Virgin Money to select her products by email on 14 November 2023, which was a week after it provided details of those products to her. This was only one day before the 'cut off' date I've referred to above and didn't leave much time for Virgin Money to review Mrs H's request. When it did reply around three days later, it requested further information from Mrs H including whether she wanted to add the product fee to her mortgage and about her repayment strategy. By this point, the cut-off date for the products to be put in place by 1 December 2023 had already passed. The earliest date Virgin Money was able to apply the new products was for 3 December 2023 – which it has shown it has done.

However, I have considered whether there's anything Virgin Money ought to have done differently to ensure Mrs H's product switch took place in time for 1 December 2023. And I think there is.

At the point Mrs H contacted Virgin Money at the start of November 2023, it would have been aware that her previous interest rate product had ended, and that Mrs H was now being charged interest at its standard variable rate – which was notably higher. I think any borrower in that position would want the new and lower interest rate product to start as soon as possible, and I think it's most likely Mrs H would have mentioned this during the call on 7 November 2023. So, I think Virgin Money could have done more to make Mrs H aware of its process when it provided details of the available products. That is, that she would need to confirm her product choice, including whether any product fee ought to be added and that she'd need to confirm her repayment plan, before 15 November 2023. If it had done that, I think it's likely Mrs H would have understood the need to have confirmed her choice before 15 November, and would have done so.

There is also the question of whether Virgin Money needed to wait for Mrs H's answer about her repayment strategy when part of her mortgage was already interest only. I don't consider it was unreasonable for it to enquire about Mrs H's repayment strategy and whether it was still on track. But I don't think it should have held up progression of Mrs H's product switch application as she already held an existing interest only mortgage with Virgin Money – 'Part 2' – and no other aspects of the mortgage were changing (e.g., the repayment term, mortgage type, or the loan amount).

Considering these factors collectively, I think there is a good chance Mrs H's product switch would have been able to complete on 1 December 2023, had Virgin Money given clearer information and if it hadn't held up progress while waiting for an answer regarding the repayment strategy. So, I consider it fair that Virgin Money should backdate the rate switch as if it had completed on 1 December 2023.

Backdating the product switch as I've set out above would result in Mrs H being charged interest at the discounted interest rate, instead of the standard variable rate, for 1 and 2 December 2023. It doesn't, however, impact the amount of interest or the payment she needed to make in December 2023 – the interest charged for December 2023 would have been factored into her January 2024 monthly payment. Mrs H feels her December 2023 payment ought to have been based on the new interest rate, but I disagree, and I'll explain why.

Interest is applied to Mrs H's mortgage monthly in arrears. This means that Mrs H's December 2023 payment included, correctly, the interest she was charged for the month of November 2023. As her previous interest rate product ended on 31 October 2023 and the new interest rate didn't start until December 2023, this means she was charged interest at the higher standard variable rate for the month of November. It also means that the higher payments Virgin Money attempted to take by direct debit in December 2023 were correct. So, when Mrs H cancelled the direct debit payments and made manual payments instead, she underpaid her mortgage by just under £1,500.

I know Mrs H disputes this and she feels these arrears have accrued because of Virgin Money's errors, but I'm unable to agree. Even if the new interest rate was backdated to 1 December, she would have been charged the same amount that month – because it was based on November's interest. If Mrs H would like her account to be brought up to date, she will need to repay the arrears. If she's unable to do that, I would encourage her to speak to Virgin Money to discuss what potential options she has. I won't be directing Virgin Money to write-off the arrears as I do not consider it has made an error in relation to the amount of interest it charged Mrs H in December 2023.

Following on from this though, I note Mrs H is concerned about the impact this matter has had on her credit file. Virgin Money has said that it hasn't reported any adverse information on Mrs H's credit file. However, I note that Mrs H has provided evidence showing her mortgage was reported by two Credit Reference Agencies (CRA) as being in an 'arrangement' for the months of January, February, and March 2024.

Despite sharing this information with Virgin Money, its response was that Mrs H's mortgage is split into two parts, which does not answer why it reported the account as being in an arrangement. I find it unlikely that two separate CRAs would be reporting this information if Virgin Money had not reported the account as being in an arrangement. It's unclear, therefore, what Virgin Money's rationale is for recording an arrangement on Mrs H's credit file about her mortgage, despite it being given ample opportunity to respond. And for completeness, I note the same information has been reported about both parts of the mortgage individually.

The available contact notes show that discussions have taken place between Mrs H and Virgin Money about the arrears on her mortgage. But as Mrs H felt an error had been made, she wanted to wait for the outcome of this complaint and didn't wish to make a payment to reduce the arrears in the meantime. It seems that following this Virgin Money has recorded that a payment arrangement has been put in place. But I don't think that is a true reflection of the conduct of Mrs H's mortgage, which is in arrears by an amount that is equal to much less than one contractual monthly payment.

An arrangement is usually put in place where a mortgage is in arrears and the borrower agrees with the lender to pay an additional amount each month to reduce the arrears. Or, alternatively, an arrangement could be put in place where an agreement is agreed for the borrower to pay less than the contractual monthly payment.

Neither of these scenarios applies here – Mrs H hadn't agreed to pay more or less than her contractual monthly payment, she continued to pay the contractual monthly amount, but she disputed the arrears position. So, I don't think it's fair or reasonable for Virgin Money to have recorded her mortgage as being in an arrangement. Virgin Money should amend the information it has reported to the CRAs, so Mrs H mortgage (both parts) doesn't show as being in an arrangement for January, February and March 2024. As the amount of arrears is less than the equivalent of one month's payment, it shouldn't show as being in arrears without an arrangement either.

Mrs H has said that she has been impacted further by the arrangement on her credit file. She has said that this caused her to default on a car finance agreement and she has incurred a financial loss by having to sell the vehicle for £4,000 less than the 'balloon payment' she would have needed to make. She has said she had to borrow this amount from a family member. And she's said the sale price she obtained for the vehicle was the "best and quickest price" she could get. Following this, Mrs H applied for another mortgage which was rejected which she says is because of the arrangement being recorded.

In response to Mrs H raising these concerns, the Investigator asked her to provide further evidence to support what she had told us. He also provided an updated assessment of the case, giving both parties a further opportunity to respond and provide supporting evidence.

The only further information Mrs H has provided in relation to the car loan is a default notice from a car finance provider for the sum of £90. Having considered this, I have not seen any compelling evidence to show that Mrs H's only option was to sell her financed vehicle at a £4,000 loss. As the Investigator has explained, with these types of car finance agreements one option is that the vehicle can be handed back to the finance provider instead of the balloon payment needing to be paid. Had Mrs H done that, it is possible she would not have incurred any loss and based on the available evidence, it's unclear why Mrs H didn't take this option instead of selling the vehicle which she has said left her with around £4,000 of finance still outstanding.

Additionally, while I accept an arrangement being shown on Mrs H's credit file is likely to impact an application for credit, I cannot be certain that this is the only reason she was unable to get a new car finance loan. Lenders will consider several factors before agreeing to lend and based on the limited evidence Mrs H has provided, I can't safely conclude the issues she has encountered with car finance are solely a consequence of Virgin Money's actions. Because of this, I don't consider it would be fair for me to direct Virgin Money to compensate Mrs H for this alleged loss.

Mrs H has also said she applied for a new mortgage and that this was declined because of an arrangement being reported on her credit file. I appreciate this would likely have caused some upset to Mrs H. However, I must also consider that she made this application in the knowledge that her credit file had been impacted. And I think she could have limited the impact this had on her by not applying for another mortgage at that point. There isn't anything in the available evidence that shows why Mrs H decided to apply for another mortgage at the time, nor is there anything that shows the arrangement on her credit file was the sole reason it was declined. For these reasons, I don't consider it would be fair for me to conclude Virgin Money should compensate her for any loss she has experienced in relation to her failed mortgage application.

Putting things right

I am persuaded Mrs H has experienced some distress and inconvenience because of Virgin Money's actions. I consider it has caused worry and upset by recording an arrangement on her credit file, which I've found to be unfair in the individual circumstances of this case. I also think it could have helped alleviate some of the worry Mrs H experienced, by explaining she would need to complete the product switch application before the cut-off date, for the new product to apply from December 2023. I agree with the Investigator that a fair way to recognise the non-financial loss Mrs H has experienced is for Virgin Money to pay her £300 in compensation.

In summary, my decision is that Virgin Money must take the following steps to put things right (if Mrs H accepts my decision):

- Backdate Mrs H's product switch as if the discounted interest rate products had completed on 1 December 2023, instead of 3 December 2023. The resulting refund of interest should first be applied to the arrears balance if there is still one outstanding at the time of settlement. If the arrears have already been cleared and/or the backdating of interest results in an overpayment, Mrs H should be given the choice of either:
 - o Having the overpayment paid to her directly, along with 8% simple interest* from the date of the overpayment to the date of settlement; or,
 - o The overpayment being applied to her mortgage account to reduce the balance with effect from the date of the overpayment.
- Amend the information it has reported about Mrs H's mortgage to the Credit Reference Agencies, so Mrs H's mortgage (both parts) doesn't show as being in arrears or an arrangement for January, February, and March 2024.
- Pay Mrs H £300.

To be clear, the effect of my decision will be that the mortgage remains in arrears because of the underpayment in December, and I do not require Virgin Money to write the arrears off. If she has not already done so, Mrs H will need to engage with Virgin Money to agree how she will make up this outstanding amount.

*If Virgin Money considers that it's required by HM Revenue & Customs (HMRC) to deduct tax from the potential interest payment, it should tell Mrs H how much it has taken off. It should also give Mrs H a tax deduction certificate if she asks for one, so she can reclaim the tax from HMRC if appropriate.

My final decision

My final decision is that I uphold this complaint. Clydesdale Bank Plc must put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 21 February 2025.

Keith Barnes
Ombudsman