

The complaint

Mr and Mrs P complain that they made overpayments to their account, but The Mortgage Works (UK) Plc has not adjusted their account to reflect these.

What happened

Mr and Mrs P complain about how TMW administered two buy to let interest-only mortgages. The complaints are set out below:

Account ending in 040

The term on this account was ten years from 2009. The term was extended until August 2021. Following the end of the term, the mortgage interest rate was TMW's standard variable rate ("SVR"). Mr and Mrs P hoped to sell the property and on 22 March 2022 they made a lump-sum payment of about £48,000.00 but the monthly payment didn't reduce, and the mortgage was redeemed in May 2023. TMW says that after the term ends, whilst it charges interest at a daily rate on the outstanding balance and the daily interest charged to the account reduced following the overpayment, it continued to charge the same monthly payment as before without altering it. The benefit would show in a reduced mortgage balance but not in the monthly payment.

But TMW says that it should have told Mr and Mrs P of changes to the interest rate after the mortgage term expired because the payments being collected would be insufficient to cover the higher rate of interest charged which would have increased the mortgage balance. It concedes that it should have made Mr and Mrs P aware of those changes to the interest rate and as compensation, it has reduced the mortgage balance by £2,894.01 which was the extra interest charged to the account when the interest rate increased.

Account ending in 748

Mr and Mrs P borrowed £175,000.00 on this account in 2011 for a term of ten years on an interest-only basis. TMW say that after the term ended, interest continued to be charged to the account on a daily basis, but, as above, it doesn't amend the monthly payment that it collects as there is no remaining term in place and the full amount outstanding is due to be repaid. But it says that it should have told Mr and Mrs P of changes to the interest rate after the mortgage term expired because the payments being collected would be insufficient to cover the higher rate of interest charged. TMW says it's corrected this by recalculating the account and reducing the mortgage balance by £3,070.36 and offered £200 by way of compensation.

Our investigator issued a view on this complaint in March 2024. In respect of account ending 040, his view was that TMW didn't have to repay the March 2022 overpayment and that it didn't have to reduce the payment when the overpayment was made but that it failed to advise Mr and Mrs P of the change in interest rates and that it should refund the additional interest that was added to the account because of the increase in interest rates together with interest on that sum and £200 for their distress and inconvenience.

In respect of the account ending in 748, our investigator's view was that TMW again failed to inform Mr and Mrs P that the interest rate was changing and failed to alert them that if they didn't adjust their payments that the mortgage balance would increase. Our investigator recommended that TMW refund the additional interest that was added to the account because of the increase in the interest rate together with interest on that and £200 for their distress and inconvenience.

Mr and Mrs P asked for clarification and on 4 July 2024, our new investigator responded:

- TMW agreed to the £400 distress and inconvenience payments because of how they managed both accounts
- In respect of account ending in 040. This account was redeemed. TMW then paid £2,894.01 to Mr and Mrs P on 21 November 2023 and agreed to pay 8% interest on that amount from the date the account was redeemed until 21 November 2023 when they received the money.
- In respect of account ending in 748, TMW says that the account was adjusted by a reduction of £3,070.36 on 1 November 2023 and no further interest is due.

Mr and Mrs P accepted our investigator's view by email on 4 July 2024. But Mr and Mrs P later disagreed with the way the compensation has been calculated saying that they should be compensated for the money that they paid in March 2022 which TMW held. They are looking for the return of £5,600.00 plus interest and believe the figure should be about £11,000.00. In a more recent email, they say that the compensation should be about £22,000.00.

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 acknowledge Mr P's email to us of 17 October 2024 when he says that he believes that he is owed about £22,000.00 and I understand if that were the figure Mr and Mrs P were truly owed that it would give them a great deal of anxiety at this challenging time when Mr P is unwell. But my analysis along with our two investigators is that that is not the correct figure. Whereas TMW put Mr and Mrs P in a situation where their mortgage balance was higher than it would otherwise have been by about £5,000, that has now been addressed and corrected and it's not our view on the information we have seen that TMW should pay any further money to Mr and Mrs P other than is set out below.

I know Mr and Mrs P are unhappy that when they paid the amount of £48,065.65 on account ending in 040 in March 2022 that the monthly payments weren't reduced and the amount they paid wasn't refunded when they asked for it to be. But Mr and Mrs P already raised that with us as a complaint and the complaint was not upheld by our investigator. The complaint was closed, and I see an email from Mr and Mrs P to our investigator on 8 December 2023 where they told our investigator "*I do not expect the case you are dealing with to be re-opened.*" Mr and Mrs P said they now wished us to review the issue that TMW hadn't alerted them to the change in interest rates after the end of term which is the subject of this complaint.

In regard to the overpayment in March 2022, as this money was owed to TMW it seems reasonable for it to have retained it. This was clearly a payment off the mortgage by Mr and Mrs P and not a loan by them to TMW repayable if they needed it. TMW treated it as a repayment off the mortgage reducing the balance and the daily interest that would be charged. Mr and Mrs P are looking for compensation for this but there is no compensation due as TMW did nothing wrong. Like all such payments it was allocated to the mortgage

account which would have reduced the mortgage balance and the daily interest that would have been payable on the mortgage balance. I've no evidence that this didn't occur.

Because the term had ended on this mortgage, TMW continued to collect the payments as before without reducing them in line with its policy but as I say that was a complaint dealt by us in 2022 that Mr and Mrs P told us in 2023 they didn't want re-opened. For the avoidance of doubt, I believe that the view of our investigator at the time namely that the overpayment shouldn't have been returned and that TMW didn't have to reduce the monthly payments as a result of the overpayments was a fair outcome to that complaint. Mr and Mrs P didn't benefit from a reduced monthly payment, but they benefited from the mortgage balance reducing quicker - and the redemption figure being lower - than it would otherwise have done if the monthly payment had reduced.

This complaint relates to TMW's failure to advise them of interest rate rises after the term of the mortgage ended. Mr and Mrs P would have an expectation of what the mortgage balance would be when they redeemed the mortgage and should have been advised if the interest rate rose so that they could increase their payments to maintain the mortgage balance. TMW's failure to inform them meant that they weren't given the opportunity to increase their payments and so should not be put in a worse position as a result. That what this compensation achieves.

There is an issue as to whether Mr and Mrs P would have been able to make the increased payments as they say that they experienced difficulties because of TMW's failure to reduce the monthly payments as they expected after they made the overpayments. I see that referred to in a letter from Mr P to us of 27 March 2024. But it's not an issue that TMW has raised, and I don't propose to reduce the compensation payable because of it. In my view the financial compensation now offered by TMW is fair and reasonable. In addition, I recognise that Mr and Mrs P would have been disappointed with the service they got from TMW that failed to alert them to the change in interest rates after the end of term. Using our guidelines, I believe that the total sum of £400 for their distress and inconvenience is fair. I've looked at the financial compensation offered in respect of the two accounts to see if it is fair.

Account ending 040:

This account was redeemed before the interest rate adjustment was made. This meant that when Mr and Mrs P redeemed the mortgage in May 2023 their mortgage balance was greater than it should have been because they had not been told to adjust their payments to meet the increased interest rates. TMW worked out what the effect of the increased rates on the mortgage balance as £2,894.01 which was paid to Mr and Mrs P on 21 November 2023. TMW didn't pay them interest on that figure for the period they were out that money from May to November 2023 and so TMW should pay interest on that figure.

Account ending 748:

The interest rate adjustment of £3,070.46 has been made on this account so when Mr and Mrs P eventually redeem it they will not be out of pocket because of TMW's failure to advise them of the interest rate changes and so no further interest needs to be paid.

Putting things right

In addition to the adjustments, it has made to the above accounts, The Mortgage Works (UK) Plc should pay Mr and Mrs P £400 in total for their distress and inconvenience and pay them interest at 8% simple on £2,894.01 from the date the relevant account was redeemed until 21 November 2023 (unless these amounts have already been paid).

My final decision

My decision is that I uphold the complaint and The Mortgage Works (UK) Plc should pay the compensation set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P and Mr P to accept or reject my decision before 27 December 2024.

Gerard McManus
Ombudsman