

The complaint

Ms D complains about the way Bank of Scotland plc trading as Halifax has administered the sub-accounts on her mortgage.

What happened

Ms D took out a mortgage with Halifax in 2007. The interest rate was fixed until 28 February 2009, since then the standard variable rate (SVR) has applied to the account. Ms D took additional borrowing later in 2007 and in 2009, both of which were taken on variable interest rate products that tracked the Bank of England base rate, albeit with different margins.

In 2013 Halifax wrote to Ms D saying that it was changing the way it was managing her mortgage account. It said her mortgage would now be made up of four sub-accounts, and set out the balances for each.

Since then, Ms D has made complaints to Halifax about the way in which her mortgage account was being administered.

In 2023 she complained about the outstanding balance Halifax said she owed under sub account four, and the interest she was being charged. She also complained that Halifax hadn't provided her the information she'd asked for.

Ms D asked our service to look into things. An Ombudsman issued a decision which said our service only had the power to consider the following parts of Ms D's complaint.

- The interest rate product applicable to sub-account four of Ms D's mortgage from 31 October 2017.
- Movements in the rate charged according to the interest rate product application to sub-account four from 31 October 2017 onwards.
- Halifax ignored a request from Ms D for a copy of the mortgage offer.
- Ms D wanted an explanation of sub account 99.
- What information requests Halifax mis-handled that resulted in it apologising to Ms D and paying her £80 compensation for inconvenience.

The Ombudsman said the rest of the complaint had been made out of time and we couldn't consider it.

An Investigator looked into the points set out above, and explained that he didn't think the complaint should be upheld. Ms D disagreed, and so the complaint's been passed to me to issue a 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.

Firstly, I want to acknowledge Ms D's strength of feeling about this complaint. I understand

her frustrations with the way Halifax has managed her mortgage account have been ongoing for some time, and it's clear she's invested a lot of time and effort trying to get to the bottom of things. I'm also sorry to hear about Ms D's poor health and the additional strain this matter is putting on her.

I want to start by explaining that whilst Ms D has several concerns about her mortgage account, I will only be considering the parts of her complaint that were determined as being within our service's jurisdiction in the Ombudsman's previous decision. Although I want to reassure her that I have reviewed all of the information and evidence she has sent, as well as the history of this mortgage as I believe it's relevant context and background to the complaint I am able to decide.

The interest rate applied to sub account four

Halifax has explained that when it changed its systems and the way it administered Ms D's mortgage account in 2013, the new sub-accounts were set up in the following way:

- Sub-account 1: Funds from Ms D's further advances that were operating on the SVR
- Sub-account 2: Funds from Ms D's original borrowing that were operating on the SVR
- Sub-account 3: Funds from Ms D's original borrowing that were operating on product CLY944 (1.24% above base rate)
- Sub-account 4: Funds from Ms D's original borrowing that were operating on product CLA598 (5.19% above base rate)
- Sub-account 99: Any fees or charges applied to the account after the system change.

So rather than each tranche of borrowing, or individual loan agreement, having its own sub account and specific interest rate aligned to it, the borrowing was merged – and the interest rates have been applied in a different way to what Ms D may have expected when she took out the borrowing.

Halifax has said that the mortgage account has operated in line with the terms and conditions, but has also said that it is willing to change the way the mortgage is set up so that it aligns with Ms D's expectations. That would result in the mortgage being set up in the following way:

- Sub-account 1: Original borrowing on SVR
- Sub-account 2: Further advance 1 on a base rate tracker (with a margin of 1.24%)
- Sub-account 3: Further advance 2 on a base rate tracker (with a margin of 5.19%).

It says this would result in a balance reduction of £453.39. So whilst the way Halifax has been managing the account may have been in line with the terms and conditions, it's clearly resulted in detriment for Ms D as her mortgage balance has not reduced as quickly as it would have done had the mortgage been managed in the way Ms D (and what I consider any ordinary person) expected it to. That is – the interest rate agreed at the time the funds were advanced would apply to the funds agreed under that contract.

I can understand why Ms D has been concerned that the interest rate hasn't been applied to her account properly. But Halifax has offered to put things right by amending the sub-accounts on the mortgage so the higher tracker rate will now only apply to the small amount of borrowing Ms D still owes on further advance 2. If accepted, this account re-work will reduce the overall amount of borrowing Ms D needs to repay and I think will give her greater oversight of how her mortgage is operating moving forwards, which is clearly important to her. It also ensures the goodwill payment Halifax made in 2011 would have been credited to the account correctly.

I'm satisfied the interest rate Halifax has applied to sub account 4 is the one that Ms D agreed to when she took out the 2009 further advance. It is higher than the other rates as it tracks the base rate with a margin of 5.19%, which is a larger margin than her other borrowing. But that is what she agreed to, and I don't think Halifax has applied the interest rate unfairly.

Ms D's other complaint points

Ms D still believes the account balances she was given by Halifax in 2016 and 2017 were incorrect. But another Ombudsman has already said we can't consider that and so I'm unable to comment on those points.

Ms D has also complained about Halifax not providing her with information when she's requested it. I've looked at the email and letter correspondence for the account, as well as the contact notes. I'm satisfied that Halifax has responded to Ms D with the information it's been able to provide. I'm also satisfied that Halifax has given a clear explanation of Ms D's mortgage account and how it has operated in its final response letter issued in January 2024.

Putting things right

As explained above, I'm satisfied the offer Halifax has made to Ms D to put things right is fair and reasonable in the circumstances. So subject to Ms D's acceptance of this decision, Halifax should re-work Ms D's mortgage account to reflect the three different tranches of borrowing being separated into the different sub-accounts, each with its own interest rate product attached to it. Any balance reductions resulting from Ms D having made 'overpayments' to the account in light of the re-work should be applied, and Halifax will need to write to Ms D with clear information about the amount owed under each sub-account, along with the applicable interest rate and new contractual monthly payment owed.

Halifax has also offered to pay Ms D £80 for any confusion caused by previous final response letters it had sent her. I haven't been able to consider the contents of those final response letters as those parts of the complaint are out of our service's jurisdiction, but as Halifax has accepted there was an error in its previous explanation, I will assume that offer remains open to Ms D should she still wish to accept that payment.

My final decision

Considering everything, for the reasons I've explained, I decide the offer Bank of Scotland plc trading as Halifax has made is fair and reasonable in the circumstances of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 31 December 2024.

Kathryn Billings
Ombudsman