

The complaint

Mr and Mrs L's complaint arises out of their buy-to-let (BTL) mortgage account with UCB Home Loans Corporation Ltd (referred to here as "UCB").

Mr and Mrs L are unhappy that, when their mortgage term expired in 2018, UCB failed to notify them that the interest rate applied to the mortgage changed. Mr and Mrs L are also unhappy that UCB will not agree to accept a reduced sum in full settlement of the mortgage account (referred to as a 'short settlement').

To settle the complaint, Mr and Mrs L would like UCB to agree to accept a short settlement on the mortgage account.

What happened

I won't 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 all the details here. In addition, UCB has acknowledged it made an error and has offered to put things right. So I don't need to analyse the events in depth in order to determine whether UCB has made a mistake; all I need to do is to decide whether the redress UCB has offered is fair or whether there is anything further UCB needs to do to put things right.

Finally, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs L 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.

In 2008, after taking advice from their own independent financial adviser, Mr and Mrs L took out a BTL mortgage with UCB. They borrowed £110,500 on an interest-only basis over a ten-year term.

The mortgage was originally on a two-year tracker rate, following which it would revert to UCB's Investment Flexible Variable Rate. The mortgage term expired in 2018, but the capital balance hasn't yet been repaid.

After the mortgage term ended, Mr and Mrs L received letters informing them that the interest rate was changing. However, because the mortgage term had expired, UCB's system didn't adjust the payments to take account of fluctuations in the interest rate, so the letters showed no change in the monthly repayment was required. As a result, Mr and Mrs L continued to make the same monthly repayment, which resulted in the mortgage being under-funded.

Mr and Mrs L complained and UCB looked into what happened. UCB acknowledged its error, and adjusted the mortgage account as if all payments had been made in full and on time from 2018 to March 2024. This resulted in UCB crediting £6,792.16 to the mortgage account. UCB also paid Mr and Mrs L £150 compensation for its error. UCB explained to Mr and Mrs L that any future changes in interest rates would result in changes to the monthly repayment and that it would be Mr and Mrs L's responsibility to make sure they made the full repayment.

Mr and Mrs L brought their complaint to our service. An Investigator looked at what had happened but was satisfied that UCB had done enough to put things right in relation to the mortgage repayments after expiry of the term.

The Investigator was also not persuaded UCB was under any obligation to accept a short settlement on the mortgage.

Mr and Mrs L didn't accept the Investigator's findings and asked for an Ombudsman to issue a final 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.

Mr and Mrs L raised other issues with us in relation to the sale of the mortgage in 2008. In a decision dated 3 December 2024 I explained why this part of the complaint was outside the jurisdiction of the Financial Ombudsman Service. I will therefore make no further comment about this.

In relation to the issues I am able to consider, I've reached the same conclusion as the Investigator, for broadly the same reasons.

Monthly repayments: UCB has acknowledged that, when a BTL mortgage term has expired, its system isn't able to vary the monthly repayments to reflect fluctuations in the interest rate. Because of this, from 2018 to March 2024 Mr and Mrs L continued to make static payments which didn't take account of interest rate variations. This led to them paying less than they ought to have done, and meant the mortgage was under-funded.

I'm glad to note that UCB has accepted it made a mistake. I'm satisfied that the credit to the account of £6,792.16 put the mortgage back into the position it would have been in had Mr and Mrs L made all payments in full and on time from 2018 to March 2024.

I also think it's reasonable to expect Mr and Mrs L to make the full monthly repayment in line with interest rate variations, now that they are aware that their repayments will change in line with interest rate movement. There is no fixed rate applicable to this mortgage account, so Mr and Mrs L are required to make payments at a variable rate of interest.

Short settlement: Mr and Mrs L want UCB to agree to a short settlement on the mortgage account.

The full mortgage balance has been outstanding since 2018. I am aware of the issues that have arisen with the property that have resulted in considerable difficulties for Mr and Mrs L. I have sympathy for the position in which they find themselves, but I have no power to order UCB to accept a short settlement of the mortgage account. That would be a matter for UCB's own commercial judgment.

I know this isn't the outcome Mr and Mrs L were hoping for. They purchased the property in 2008 in the expectation that it would be a sound investment that would provide a return for them. That has not turned out to be the case, for reasons outside their control – and also outside the control of UCB. I hope Mr and Mrs L are able to resolve matters with the freeholders, as I have no doubt this has been a very stressful time for them.

However, after taking note of what's happened in relation to the monthly repayments and the request for a short settlement, I'm unable to find UCB to be at fault.

My final decision

My final decision is that I don't uphold this complaint.

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 Mr and Mrs L to accept or reject my decision before 2 January 2025.

Jan O'Leary
Ombudsman