

The complaint

Mr and Mrs S complain about the way that TSB Bank plc has managed their mortgage account.

What happened

Mr and Mrs S have a mortgage with TSB composed of two sub-accounts, The first one, which is sub-account 01 was for the original loan of £81,663.78 set up in January 2006. Mr and Mrs S then borrowed an additional sum of £35,135.92 in December 2006 which was sub-account 02 to purchase a buy to let property. In 2007 Mr and Mrs S stopped making payments by Direct Debit and made payments manually to both sub-accounts. The intention, as I understand it, was that Mrs S would make payments to the 01 account with Mrs S making payments towards the 02 account. Mr and Mrs S says that this was what was intended but that the payments were allocated incorrectly by TSB. TSB say that Mr and Mrs S in fact set up the payments incorrectly so that whilst the payments from Mr S were going to the 02 account, those from Mrs S weren't designated to a specific sub-account so were credited to the mortgage as whole and then allocated between both accounts.

The effect of the allocation of the payments was that the account 01 fell into arrears but as account 02 was in credit the mortgage account as a whole didn't show in arrears. When Mr and Mrs S became aware of this in August 2024, they raised a complaint with TSB. The bank said at that time, sub-account 01 was in arrears of £1,36.60 and sub-account 02 in credit of £7,833.61 so, the account was in an overall credit position. The bank also said that there was a benefit to Mr and Mrs S in the way the allocation had worked out as sub-account 02 had the higher interest rate which meant that Mr and Mrs S were paying less overall than if the allocations had been as they intended. Following discussion with Mr and Mrs S, the bank agreed to move money from sub-account 02 to 01 to clear the arrears on that account. This caused the expected monthly payment to increase from £494.01 to £542.22.

But TSB says that Mr and Mrs S still aren't allocating the payments correctly with Mr S using the reference 02 and Mrs S using the general account number without specifying the sub-account. TSB's view was that whilst the misallocation of payments wasn't its fault, it should have explained more clearly to Mr and Mrs S the impact of moving moneys from sub-account 02 to sub-account 01 and offered £100 as compensation. Our investigator felt that any error on the payments lay with Mr and Mrs S and that TSB's offer of compensation of £100 for its failure to set out the consequences of moving the money between accounts was fair. Mr and Mrs S disagreed saying in summary that:

- Until the bank split up in 2013, the account was administered fairly, and the problems only started then.
- The bank didn't tell them that the account was in arrears.
- These were not manual payments as they were set up as a Direct Debit for sub-account 01 and a standing order for sub-account 02 and the accounts were set up correctly.

- They want compensation of £3,000 and for TSB to put the accounts in order.

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 S say that it's the bank's fault when, after a change in the bank structure, the monies they were paying to TSB for their mortgage wasn't allocated correctly between both accounts. TSB says that it's more likely that the problem arose when Mr and Mrs S decided to make the payments by standing order rather than direct debit and the payments were allocated to the accounts that Mr and Mrs S specified on the standing order although their intention was to have a different allocation. TSB says that the payments from Mr S which he directed to the 02 account were allocated to the 02 account and as Mrs S directed her payments to the mortgage account without being specific as to the sub-account, they were allocated between both accounts.

I've considered the payment history of the sub-accounts supplied which confirms that the payments were by direct debit originally and recorded as such and then recorded as "*Bank Payment*" from October 2007 which I understand was Mr and Mrs S making the payments from their bank directly. So instead of TSB collecting the payments from their bank account Mr and Mrs S's bank was now making the payments at their direction. I noted that the payments continue on both accounts as I would expect until August 2013 when there is a change with 01 being allocated lower payments than before and 02 being allocated higher payments than before - a trend that continued until recently and produced this complaint. TSB also provided a spreadsheet showing payments to the mortgage account from 2019 which shows to which account the incoming payments were directed supporting its view that the payments were being directed either to sub-account 02 or the general account.

To assist me on 6 January we asked Mr and Mrs S to get information from their bank as to what mortgage account numbers their standing orders for payment were being directed before July 2024. Mr S replied with information from his bank, but I received no information from Mrs S's bank. Mr S produced evidence from his bank confirming that the standing order was set up in 2008 to make payments into the 02 account. Mr S says that the standing order payments were paid into this account without problem until 2013 when he says the bank split into two and when he says the problems began. But I can see no issue with the payments that were made from Mr S's standing order into the 02 account. At the beginning of 2013, £236.25 per month goes from his bank account to the 02 account and at the end of the year £236.25 goes into the 02 account from his bank account. So, I can see nothing wrong with the operation of the payments into the 02 account despite changes to the structure of the bank in 2013.

The problem is with the payments into the 01 account. From 2013 the payments allocated to the account were underfunding the 01 account. TSB says the likely reason is that Mrs S directed her payments to the mortgage account without specifying 01 and so were allocated proportionately between 01 and 02 leaving 01 underfunded and 02 now overfunded. TSB don't have all the records going back to 2013 but has some supporting evidence showing that from 2019 Mrs S's payments have been directed to the general account so that may well have been the case since 2013. I have no contrary evidence from Mrs S - I have only Mr S's standing order to the 02 account - showing that the payment was directed to the 01 account and wrongly allocated by TSB. Mr S points to inefficiencies in TSB which he believes is to blame and which I've considered. But If TSB were able to allocate payments on the 02 account efficiently according to the direction of Mr S, is it not likely that it would have allocated Mrs S's payments according to her directions whatever those were? At the end of the day TSB were allocating the payments at Mrs S's directions and I've no evidence

to say that it was acting contrary to her direction. My role is to decide if TSB was at fault in how the payments were allocated and I don't accept that the evidence supports that.

The effect of all this was that whilst the account as a whole was up to date, there was an imbalance in the sub-accounts with one being underfunded and one being overfunded. Leaving aside the question as what caused this imbalance should Mr and Mrs S been aware of it? I asked for the annual mortgage statements from 2019 onwards and it's clear that there was an imbalance in the accounts. As the annual mortgage statements that I've seen reflect the payments in the transaction history going back to the start it's likely that the annual mortgage statements from 2013 would have shown this imbalance between accounts.

As the annual mortgage statements are there for customers to check that payments are recorded correctly I would have thought that if Mr and Mrs S were concerned about the allocation of the mortgage payments, they had ample time to raise questions with TSB and I can see that TSB responded quickly to their concerns in 2024 when the accounts were adjusted. So, even if I were to agree with Mr and Mrs S that the misallocation of payments was TSB's fault, it's difficult to see what compensation would be payable if Mr and Mrs S should have been aware of it since 2014 or thereabouts but didn't consider raising it as an issue until ten years later.

So, even if I were to uphold Mr and Mrs S's complaint I can't see that any compensation would be due to them. Firstly, as I say above they should have been aware of what was happening on the accounts for this past ten years from their annual mortgage statements. Secondly, as it worked out, there appears to have been a benefit to them from the actual allocation as more money was being allocated to the 02 account which had the higher rate of interest so the amount that they would have to pay on their overall mortgage would be less than it otherwise would have been.

Whilst I don't uphold the main part of the complaint, I can see that when Mr and Mrs S requested a re-allocation of money from the 01 account to the 02 account, TSB accepts that it should have more clearly explained the impact of doing so on the payments going forward and offered £100 compensation for this failure in providing clear information which I believe is fair.

My final decision

My decision is that TSB Bank Plc has made an offer to settle this complaint which I consider is fair and reasonable in all the circumstances. So, I require TSB Bank Plc to pay Mr and Mrs S £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 6 March 2025.

Gerard McManus
Ombudsman