

## The complaint

Mr D has complained about how Clydesdale Bank Plc trading as Virgin Money has treated an overpayment he made to his mortgage account. He says he wanted to keep his monthly payments the same and reduce his mortgage term, but Virgin instead reduced his contractual mortgage payment.

## What happened

Mr D took out this mortgage in October 2022 through an independent mortgage broker. The mortgage offer issued in July 2022 set out that Mr D was borrowing £132,000 (plus fees) over a 19-year term on a repayment basis. The interest rate was noted to be fixed at 2.58% until 1 October 2027. The offer explained that if Mr D wanted to repay his mortgage (either in full or in part) before 1 October 2027 then he would incur an early repayment charge ("ERC") of 3.5%, although it said he could repay up to 10% of the outstanding balance per calendar year without incurring an ERC.

On 4 September 2024 Mr D called Virgin as he wanted to make the maximum overpayment that he could without incurring an ERC. He was told what making that overpayment would reduce his monthly payments to, and that in January he could increase his monthly contractual payment and if that stayed within the limit then he wouldn't incur a charge. Virgin said that if he kept his payments the same for the rest of 2024 then he would be charged an ERC as that would mean he was making further overpayments, which would be above the 10% he was allowed without incurring an ERC. Mr D made the overpayment of around £12,600 that day.

But because he was unhappy with what he'd been told, as he wanted to keep his payments the same and reduce the mortgage term, Mr D raised a complaint. He said that he wanted to reduce his term and other lenders had allowed him to do that in the past. He also said Virgin's online overpayment calculator indicated it was possible. But when he phoned to make the overpayment he was told it wasn't possible to reduce the term. He said the only reason for overpaying is that he wanted to pay off his mortgage early, and to do that he needed to reduce the mortgage term rather than having the monthly payment reduced.

Virgin responded to the complaint on 13 September 2024. It said it doesn't adjust mortgage terms after overpayments, and this is explained in the mortgage offer. And if Mr D wanted to apply to reduce the mortgage term then he could get more information on that by calling a number it provided in its letter. It said whilst it hadn't done anything wrong, if Mr D wanted to keep his payment the same for the remainder of 2024 then it could refund part of the overpayment to him.

Mr D referred the complaint to our service saying he wants Virgin to reduce his term based on the amount he's overpaid, keeping his payments the same. Virgin told us that, at that time, Mr D hadn't asked for part of his overpayment back nor had he applied to formally reduce his mortgage term. It said if he wanted to do that he needed to apply, and the fee applicable for that is set out in its tariff of charges.

Our Investigator didn't uphold the complaint. He said the terms of Mr D's mortgage offer are that Virgin will reduce the monthly payment when an overpayment is made. He also explained that Virgin had said Mr D could apply to officially reduce the mortgage term, but he needed to contact Virgin to make an application for that.

Mr D didn't accept our Investigator's findings and so the case was 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.

Although I've read and considered the whole file I'll keep my comments to what I think is relevant. If I don't comment on any specific point it's not because I've not considered it but because I don't think I need to comment on it in order to reach the right outcome.

The starting point here is the mortgage contract that Mr D entered into, and whether the nature of the product was fairly explained by Virgin in the paperwork at the time.

Mr D's mortgage offer contains the 'Loan Conditions' which says, in section 14 entitled 'How will Virgin Money deal with any Overpayments I make?':

- If you make an Overpayment of £500.00 or more by a payment method other than direct debit, we will recalculate your Monthly Payment. The new Monthly Payment will apply from the 1st of the following month. We will write to let you know what your new Monthly Payment will be.
- If following an Overpayment, you don't want your Monthly Payment to change, you will need to contact us so we can discuss this. We can't guarantee that we will be able to honour your request, but we will try.'

Mr D wanted to reduce his mortgage term, leaving the contractual monthly payment the same but it is clear from the section I've quoted above that isn't how Virgin would treat an overpayment. It says that the monthly payment will be recalculated, and if Mr D wanted to reduce his term instead he could discuss that with Virgin but it couldn't guarantee it would agree.

The contractual monthly payment is calculated based on the term agreed in the contract, and here that was a 19-year term from 2022. Because of the overpayment Mr D made in September 2024, the contractual monthly payment was then set at a lower level. This was because Mr D had paid more off his mortgage than he needed to under the contract at that time so the contractual monthly payment was adjusted to ensure the mortgage would still run for the full 19-year term. That would remain the case, unless a formal application to amend the term had been made and accepted.

Mr D has said other lenders treat overpayments in a different way, but that doesn't mean Virgin did anything wrong here. It set out how it treats overpayments in the contract that Mr D agreed to when he took out this mortgage, and if Mr D wasn't happy with that then he could have looked to apply instead to one of those other lenders. Virgin treated Mr D in the same way it would have treated any other of its customers, and it didn't have to agree to any bespoke options or to set-aside its policy however much Mr D may have wanted it to.

Virgin has said what Mr D needs to do if he wants to formally reduce his mortgage term. That is, he needs to phone Virgin to apply for a change in mortgage term – paying the relevant fee that is applicable at the time which Mr D can find in his Tariff of Mortgage Charges booklet, which is also available on Virgin's website. Virgin has said that the number

Mr D can use if he is calling from outside of the UK can also be found on its website at <https://uk.virginmoney.com/contact/mortgages/>. I understand Mr D says he has asked Virgin to call him about it but that isn't something I would expect Virgin to do, it is up to Mr D to call Virgin if he wants to make a change to his mortgage.

Mr D is also unhappy that Virgin didn't respond to his requests to speak to him after the final response letter was issued, but that isn't something I can consider here as this complaint just deals with the issue covered in the final response letter – that is about whether Virgin did anything wrong in reducing the monthly payment rather than the mortgage term. If Mr D is unhappy about anything that has happened since the final response letter was issued then he would need to raise that as a new complaint with Virgin.

I understand this decision will be a disappointment to Mr D but having considered everything I'm not persuaded Virgin is administering his mortgage incorrectly in respect of how it treats any overpayment. For that reason, I'm also not persuaded it has done anything wrong here.

### **My final decision**

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 20 February 2025.

Julia Meadows

**Ombudsman**