

The complaint

Mr A and Ms C's complaint is about a mortgage account they hold with Clydesdale Bank Plc. They say that Clydesdale failed to switch their mortgage from a capital repayment mortgage onto an interest-only basis. This has led to the bank taking much higher payments than Mr A and Ms C believe they are required to pay, even though Clydesdale has repeatedly told them that this is an error on its part.

Mr A and Ms C say that they are now on a mortgage product that they didn't sign up for, and want Clydesdale to switch the mortgage onto an interest-only basis.

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, our decisions are published, so it's important I don't include any information that might lead to Mr A and Ms C 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.

Briefly, in 2021 Mr A and Ms C took out a capital repayment mortgage with Clydesdale. The mortgage was initially on a fixed rate until 31 March 2024. In March 2024 Mr A and Ms C wanted to take out a new interest rate product and there were a number of phone calls with the bank about this.

During these calls, Mr A confirmed he didn't want to make any changes to the repayment basis of the mortgage. Clydesdale confirmed that Mr A and Ms C could switch their product online, choosing the rate which suited them best.

When completing the online form on 7 March 2024, Mr A and Ms C confirmed they'd read the information about eligibility for an online switch, including a statement that they didn't want to make any changes to the repayment basis of the mortgage. On ticking the box, the application proceeded. But when completing the application form, Mr A and Ms C in fact changed the repayment basis to interest-only.

At this point, the application shouldn't have been able to proceed further, due to this change. That's because, in order to change a mortgage from capital repayment to interest-only, Mr A and Ms C would have needed an appointment with a mortgage adviser. However, due to a system error, paperwork was generated for an interest-only mortgage on an interest rate of 4.68% fixed until 31 May 2029, which showed a contractual monthly payment (CMP) of £1,186.

On 2 April 2024 Clydesdale confirmed in writing that the CMP was, in fact, £2,625. Another letter was sent on 22 April 2024 in which Clydesdale confirmed that the documentation issued to switch the mortgage to interest-only had been issued in error, and that the mortgage remained on its original capital repayment basis.

The first payment of £2,626 was taken on 15 May 2024, and in June 2024 Mr A and Ms C queried this, saying they'd never been told about this higher repayment.

When Clydesdale said it hadn't made an error, Mr A and Ms C complained to our service. An Investigator looked at what had happened. After listening to the phone calls prior to Mr A and Ms C taking out the new interest rate product, she was satisfied that Mr A and Ms C had confirmed to the bank they weren't intending to make any changes to the repayment method of the mortgage.

The Investigator was satisfied that Clydesdale's online application makes it clear that a product switch can only be applied for online when the customers have confirmed that they do not intend to make any changes to the repayment method of the mortgage. The Investigator also noted that Clydesdale had confirmed the correct CMP prior to it being taken from Mr A and Ms C's account.

In the circumstances, the Investigator wasn't persuaded an error had been made by the bank. Mr A and Ms C disagreed. They said that Clydesdale had confirmed multiple times on the telephone that the CMP should have been £1,186. They also said that they were now on a mortgage they'd never signed up for, as a result of which they don't believe they've been treated fairly.

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.

Having done so, I've reached the same conclusion as the Investigator, for broadly the same reasons.

First of all, this is, and always has been, a capital repayment mortgage. It was taken out on that basis, and I'm satisfied that during the calls with Clydesdale in early 2024, Mr A confirmed that there would be no change to this. During a call on 22 February 2024 Mr A was told about the six-month interest-only concession under the Mortgage Charter, but explained that the bank couldn't offer a two-year interest-only product, as this would require a full application with a mortgage adviser. Mr A confirmed he wasn't intending to make any changes to the repayment method of the mortgage.

Clydesdale's website is quite clear that a new interest rate product can be applied for online if *"you don't want to change the repayment method"*. When making their application on 7 March 2024 Mr A and Ms C ticked the box which says *"I confirm I have read the above information and I am happy that I can continue with the application"*.

Despite this confirmation, Mr A and Ms C then changed the repayment method from capital repayment to interest-only. Clydesdale's system should have picked this up, but didn't. The application shouldn't have gone any further and Mr A and Ms C ought to have been told that if they wanted to switch to interest-only, they'd need to make an appointment with a mortgage adviser. However, in error, the system issued a product switch offer for a new rate on an interest-only basis – something Mr A and Ms C weren't entitled to have without seeing a mortgage adviser.

I can see that Clydesdale confirmed on 7 April 2024 what the correct CMP would be, and also confirmed on 22 April 2024 that the interest-only product switch offer had been an error. So I'm satisfied that Mr A and Ms C were aware prior to the first payment being taken on 15 May 2024 what their CMP would be. I also note that, after those letters were sent, there was no contact from Mr A and Ms C querying this.

Overall, I'm not persuaded it was reasonable for Mr A and Ms C to believe their mortgage had been switched to interest-only. Clydesdale had already told them – before they applied for the product switch – that if they wanted to change the repayment basis for the mortgage they'd need to have an appointment with an adviser. That's because Clydesdale is under a regulatory obligation to ensure that there is a suitable repayment vehicle for an interest-only mortgage, and so it's not possible to switch to interest-only without a full application.

I'm also satisfied that Mr A and Ms C were aware prior to the first payment being taken that there'd been an error that generated an interest-only product switch offer, and they knew six weeks before the CMP was taken how much this would be. Mr A and Ms C were never entitled to an interest-only mortgage without making a full application. Given this, even though the interest-only offer was generated in error, I'm not persuaded it was reasonable for Mr A and Ms C to believe their mortgage had been switched to interest-only. They'd already been made aware that a switch to interest-only would require an appointment with a mortgage adviser.

In addition, Mr A and Ms C had confirmed when starting the application that they had no intention of changing the repayment method (which was, and always had been, capital repayment). Given this, I don't think it would be fair or reasonable to allow them to rely on a systems error that generated the incorrect document for an interest-only product switch, when this is something they weren't entitled to.

In the circumstances, I'm not persuaded Clydesdale is at fault for confirming the correct monthly repayment, and that the interest-only product switch offer was an error.

Mr A and Ms C can ask Clydesdale for a six-month interest-only concession under the Mortgage Charter, but this will result in higher monthly repayments at the end of the concession, because the unpaid capital will remain on the mortgage balance. Alternatively, if Mr A and Ms C wish to do so, they can make an application for a switch of their mortgage from capital repayment to interest-only, subject to meeting Clydesdale's lending criteria including (but not limited to) age, income, loan-to-value ratio, property value, and evidence of an acceptable repayment vehicle.

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 A and Ms C to accept or reject my decision before 14 February 2025.

Jan O'Leary
Ombudsman