

## **The complaint**

Mr and Mrs M complain about the way Santander UK Plc has administered their mortgage account.

## **What happened**

Mr and Mrs M had an interest only mortgage with Santander, the term of which ended in 2020. Since that time, several holds on the account and temporary extensions were agreed until the mortgage was redeemed in April 2024.

In November 2023, Santander migrated Mr and Mrs M's mortgage account over to a different internal management system. During that process, it came to light that in certain periods since the mortgage term had ended, the direct debit set up to collect the monthly payments due on the mortgage had not always changed when the interest rate charged had changed. The interest rate also hadn't always been charged correctly. There were also other administrative issues caused by the account migration, and in December 2023, the direct debit tried to collect over £8,000 from Mr and Mrs M's bank account without any prior notice (their monthly payment was just over £1,000).

Whilst the sale of Mr and Mrs M's house was going through, and Santander was investigating what had happened to the account during the system migration, Mr and Mrs M didn't make their monthly payments for January, February or March 2024.

When Mr and Mrs M redeemed the mortgage, the balance was around £7,000 more than they had expected to pay based on previous statements.

Mr and Mrs M complained. Santander explained that since the term ended, Mr and Mrs M had been underpaying on occasions when the interest rate had changed but their payment hadn't changed. So charges had been added onto the account. It said it had now remediated the impact of that by crediting £790.72 to the mortgage. It said the arrears of £9,335 on the account were correct and were made up of the missing monthly payments for January, February and March 2024. It apologised for attempting to take such a large payment from Mr and Mrs M's bank account, and also for the length of time it had taken to explain what had happened. It paid £250 to apologise.

One of our Investigators looked into things and said Santander needed to do more to put things right. She said it should re-work Mr and Mrs M's mortgage account as if the correct, higher, monthly payments had been made at the relevant times, and refund the difference in interest charged. She also said that Santander should pay 8% simple interest on that amount calculated from the date the mortgage was redeemed to the date of settlement. She also said Santander should pay an additional £250 to recognise the distress and inconvenience this matter had caused. So a total of £500. She said Santander should amend Mr and Mrs M's credit file to reflect that the correct payments were made on time.

Santander disagreed that our service's usual approach to complaints where mortgages had been underfunded applied here, as the mortgage term had finished before the account was affected. It said it was Mr and Mrs M's duty to ensure the mortgage was repaid by the term

end date. It did however agree to increase its payment for distress and inconvenience to £500.

As Santander disagreed, the complaint has 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.

It's clear that the migration of Mr and Mrs M's mortgage account onto a different system has caused several administrative errors and confusion for all parties. I'm not persuaded Santander has explained what's happened and the impact it's had clearly enough to Mr and Mrs M and this has caused confusion.

When the account migrated, it was found that Mr and Mrs M had not been charged the correct monthly payments as the correct interest rate hadn't always been applied to the account. There were also some changes made to the sub-accounts and the way these were recorded. This led to the mortgage showing as being in arrears, the monthly payments increasing, and Santander tried to collect more money than it should have done in December 2023 as a result.

In relation to the interest rate and the monthly payments, having looked at all the evidence, I think there are actually two different issues that need to be addressed. Firstly, there were times when the interest rate charged on the account hadn't been changed in line with Santander's variable rate at the times of the relevant changes. And secondly, there were times when the interest rate did change, but the monthly payment amounts collected by the direct debits weren't changed to collect the right amount.

I think Santander has attempted to remedy the first of those issues through this complaint. It has looked at the occasions when the rate increase should have been made at the time but wasn't, and this was changed when the account migrated. As part of this complaint, it has agreed to apply the lower rates for the relevant periods rather than the higher rates that ought to have been applied, and that's resulted in the £790.72 credit to the account. I think that's fair and reasonable.

But that doesn't address the second issue. Which is that even when the interest rate charged on the account was varied and correct, the monthly payment Mr and Mrs M were charged wasn't. As a result, the mortgage balance increased as interest was being added to the account that wasn't being covered by the monthly payments Mr and Mrs M were making. Mr and Mrs M's mortgage balance increased by just under £7,000 during the period between the term ending, and the mortgage being redeemed. Despite the fact that all their monthly payments had been made on time by direct debit.

Our service has an established approach to complaints like this where a mortgage has been underfunded. Essentially, when a lender hasn't collected the correct monthly payments from a borrower, and hasn't notified the borrower of this error so they've had no opportunity to correct the issue, we would usually say it's the lender that's responsible for the fact that payments haven't been made as they should have been. In this case, that's resulted in the balance of Mr and Mrs M's mortgage increasing, and they didn't have the opportunity to do anything to mitigate that at the relevant times.

Santander has argued that our service's usual underfunding approach doesn't apply here because the mortgage term had ended. But I disagree. Whilst contractually the mortgage was supposed to end in 2020, and Mr and Mrs M had agreed to repay the sums due by that

date, that isn't what happened. And Santander agreed forbearance and further time for Mr and Mrs M to arrange their affairs and sell their property. Whilst the mortgage term had ended, the mortgage remained in place until it was redeemed in April 2024. Santander was charging interest on the mortgage as the contract allowed, and Mr and Mrs M were making monthly payments in line with their contractual obligations. For all intents and purposes, the mortgage was still in place.

Mr M has sent us copies of his bank statements during the relevant periods, and I'm satisfied that if Santander had informed him of the correct amount he needed to pay, and collected that amount by direct debit, he and Mrs M would have been able to pay it. Instead, they weren't given that opportunity, the mortgage balance increased, and that led to more interest being charged. I don't think that's fair.

I've also looked at the contact notes for this account. Mr M was having regular conversations with Santander during the relevant period, and Santander gave him no reason to believe he and Mrs M weren't paying sufficient amounts into the account. And there were times when Mr and Mrs M's monthly payments changed as a result of changes to the interest rate. So I don't think they could reasonably have known they weren't paying the correct amounts.

In fact, in December 2023 and January 2024 after the account migration had taken place and showed the account as being in arrears, Santander assured Mr M that was a mistake. It told him the arrears were incorrect, and told him to continue paying the same amount as he had been (which was incorrect based on what the correct interest rate was at the time). So even when the underfunding had been brought to light by Santander's systems, it still didn't tell Mr and Mrs M the correct information about the account position and what they needed to pay.

Overall, I'm satisfied that Santander has treated Mr and Mrs M unfairly, and they've suffered a financial loss as a result.

### **Putting things right**

The mortgage account has now been redeemed in full, and Mr and Mrs M have now effectively paid the 'missed' payments that Santander should have charged them but didn't at the relevant times. Whilst that money was technically owed to Santander, I think Mr and Mrs M have been charged more interest than they ought to have been. That's because mortgage interest was being charged on an increasing balance that Mr and Mrs M didn't have the chance to reduce or mitigate.

I am also mindful that this mortgage was due to end in 2020. And Santander did allow a significant period of time for Mr and Mrs M to take their own steps to redeem the mortgage, rather than take any other action to bring the mortgage to a close earlier. With that in mind, I don't think it would be fair and reasonable to expect Santander to refund the underpaid amounts now to Mr and Mrs M, when had there been no mistakes in the first place, those funds would have been owed, and paid, at the relevant times.

But I do think Santander should put Mr and Mrs M back into the position they would have been in had it collected the correct payments at the relevant times. That would have prevented the balance from increasing in the way that it did, leading to more interest being charged overall. As a result, Santander should re-work the mortgage account as if the correct payments had been made at the relevant times, with the exception of the three monthly payments Mr and Mrs M chose not to make before redeeming the mortgage.

It should then refund any additional interest it charged Mr and Mrs M as a result of the payments not being made when they should have been. And then pay 8% simple interest\*

on that refund amount calculated from the date the mortgage was redeemed to the date of settlement.

If Santander has reported any adverse information about this mortgage to credit reference agencies as a result of this error, it will need to amend that too to reflect payments having been made in full and on time.

I also agree with the Investigator that this matter has caused Mr and Mrs M significant distress and inconvenience. After the account migration, Santander unexpectedly tried to collect over eight times what Mr and Mrs M were expecting to pay as their monthly payment. It then told them the account was in arrears. It later told Mr and Mrs M that information was incorrect and that they should continue paying the same amount as they had been. When Mr and Mrs M complained about what had happened, it took around four months for Santander to tell them what had happened, and even then, I don't think its explanation was very clear. As a result, I'm satisfied Santander should pay Mr and Mrs M a total of £500 for the distress and inconvenience caused.

\* Interest is at the rate of 8% a year simple. If Santander considers that it's required by HM Revenue & Customs to take off income tax from that interest, it should tell Mr and Mrs M how much it's taken off. It should also give them a certificate showing this if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.

I'm satisfied this is a fair and reasonable way to put things right based on the individual circumstances of this case.

### **My final decision**

I uphold this complaint and direct Santander UK Plc to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 21 April 2025.

Kathryn Billings  
**Ombudsman**