

The complaint

Mr and Mrs R's complaint is about their mortgage account held with Bank of Scotland plc trading as Birmingham Midshires (BM).

The interest-only mortgage term has come to an end and Mr and Mrs R are unhappy that interest has continued to accrue against the outstanding balance, as a result of which the amount to be repaid has increased.

In addition, Mr R (who has dealt with the complaint throughout) says that it was only in the last three years that BM started to send annual mortgage statements. Mr R says that he'd never previously received an annual statement and so was unaware that interest was being charged on the mortgage.

Mr R also says that BM rejected his offer of a lump sum payment off the outstanding balance, and is unhappy that, as a result, additional interest has been charged.

What happened

I don't need to 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 the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs R 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.

The mortgage was taken out in 2004 on an interest-only basis over a nine-year term, after Mr and Mrs R were given advice by a mortgage broker. Mr R has explained that he had misunderstood the nature of the mortgage, initially believing it to be a capital repayment mortgage. He discussed switching to capital repayment with BM in, he believes, 2010, but wasn't able to afford to do so.

The mortgage term expired in March 2013. The term has been extended several times, but expired in March 2022 when the full balance of about £210,000 was due to be repaid.

In 2019, when the term was about to expire, Mr and Mrs R raised a complaint with our service about BM refusing to grant a further term extension. On 22 April 2021 an Investigator explained why he wasn't upholding the complaint.

The term was subsequently extended by BM to March 2022, presumably due to the pandemic.

In May 2024 Mr R complained about the interest charged on the mortgage. In its final response letter BM explained that, when an interest-only mortgage has expired, the monthly repayment isn't recalculated in line with fluctuations in interest rates. Therefore if payments remain at a static rate, they might not be enough to cover the interest charged on the mortgage. BM said that each time interest rates changed, it wrote to Mr and Mrs R to explain this, and that annual statements were also sent showing the interest rates.

Dissatisfied with BM's response, Mr and Mrs R complained to our service. In addition to the concerns about the interest added to the mortgage, Mr R said that BM had never sent any annual mortgage statements until the last three years. Mr R also said that he'd told BM in July 2023 that he wanted to pay off £100,000 from the mortgage. However, no payment was made at that time. Mr R wrote to BM on 1 July 2024 saying he would like to pay £80,000 off the mortgage and settle the full balance on 28 February 2025. However, Mr and Mrs R did not make any lump sum payment, or pay off the mortgage by 28 February 2025.

Two Investigators looked at what had happened. Neither of them thought BM had done anything wrong. They were both satisfied that annual statements had been sent showing the interest rates applied to the mortgage. In addition, BM had written to Mr and Mrs R each time the interest rate changed, explaining that as this was an expired mortgage, the monthly repayment wouldn't be recalculated.

The Investigators thought it was up to Mr and Mrs R to make a lump sum payment if they'd wanted to, and that BM had not declined this. The Investigators explained that the full balance was due and that Mr and Mrs R would need to make arrangements to repay this. It was noted that Mr and Mrs R owned buy-to-let (BTL) properties and had previously told BM they would sell these to repay the mortgage. In addition, they were building property abroad to rent out. The Investigators concluded that Mr and Mrs R were therefore not without options, but needed to address payment of the outstanding balance in order to avoid legal action.

Mr R disagreed with the Investigators' findings and asked for an Ombudsman to review the complaint.

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 R says that BM never sent any annual statements throughout the term of the mortgage until the last three years. As a result, he wasn't aware that interest was accruing on the expired mortgage.

BM has provided copies of historic statements sent to Mr and Mrs R. BM has explained that, due to migration of its records onto a new system, older statements have been retained in a different format from newer ones. However, I'm satisfied that the statements contain information about the interest rate being applied to the mortgage balance.

Although Mr R says that no annual statements were ever sent by BM, I'm persuaded that these would have been sent. They are system-generated documents, and so are created automatically each year along with thousands of other borrowers' annual statements. Whilst it's possible one or two statements might have been lost in the post since 2004, I think it's unlikely that Mr and Mrs R never received a statement for the entire term of the mortgage, until the last three years.

I'm satisfied that the annual statements show the interest applied to the mortgage – including interest added after the term expired. I'm also satisfied that BM wrote to Mr and Mrs R each time the interest rate changed. The letters say:

“Some or all of your term has ended

We can't work out a new payment for the parts where the term has ended. So, your monthly payment for those parts will stay the same and may not be enough to cover

the change in the interest rate... We've not extended the term. This means the end date of your account is the same, and we'll continue to charge interest until you pay off the balance in full. So, the longer your balance is outstanding, the more you'll need to pay."

In the circumstances, because Mr and Mrs R didn't increase their monthly payments when interest rates increased, the account balance increased. I'm satisfied that BM has done nothing wrong in administering the account in this way.

Since the term expired, Mr R has put various proposals to BM about clearing the balance, by selling other properties, and making a partial reduction in the balance. None of those things has taken place, even though I note Mr R confirmed to BM that he could pay £80,000 off the balance in July 2024.

If Mr R had made the £80,000 lump sum payment, that would reduce the outstanding balance, and thus the amount of interest charged. I'm satisfied BM did not reject the payment. However, BM was entitled to request information about how Mr R was intending to clear the remaining balance. It was up to Mr R to decide whether or not to pay the lump sum off the mortgage. Because he didn't do so, the balance wasn't reduced. I'm not persuaded BM can be held to blame for this. Nor can I find that BM should reduce the interest as if a notional lump sum had been paid by Mr R when he could have paid it but didn't.

Overall I'm not persuaded BM has done anything wrong here. Although I've noted what Mr R has said about his naivety in relation to understanding how the mortgage operated, he is also a property investor with two BTL properties, which suggests a level of understanding about financial and property matters. Given this, I'm not persuaded Mr and Mrs R didn't understand how the mortgage operated or that interest would continue to accrue on the outstanding balance.

In all the circumstances, I'm unable to find BM has done anything wrong in its administration of the mortgage account. I note that in July 2024 Mr R promised BM he would clear the balance in full by the end of February 2025. I've not been provided with any evidence to show this has been done.

If Mr and Mrs R are unable to clear the balance, BM will be entitled to continue the legal action which is currently on hold. I would therefore urge Mr and Mrs R to speak to an independent financial adviser to discuss their options to repay this mortgage within the near future.

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 R to accept or reject my decision before 29 May 2025.

Jan O'Leary
Ombudsman