

The complaint

Ms S complains that HSBC UK Bank Plc delayed the start of a new interest rate on her mortgage, and didn't collect a payment when she was expecting it to.

What happened

Ms S has a mortgage with HSBC. Her existing fixed rate was due to end on 31 July 2024, and in the run up to that she had discussions about her options with HSBC. She decided to make an overpayment to reduce the balance and then take a new fixed rate.

To give effect to this plan, Ms S needed to make the overpayment on 31 July 2024, the last day of her existing fixed rate, so that the new fixed rate could be based on the lower balance – rather than overpaying once the new fixed rate was in place. If she made the overpayment earlier or later than that, there was a risk of an early repayment charge (ERC).

HSBC issued an offer. The offer itself didn't contain an implementation date. But the adviser Ms S dealt with told her – and noted in HSBC's internal systems – that the new offer should begin on 1 August 2024. Ms S therefore made the overpayment on 31 July as agreed. But her new interest rate didn't in fact start until 8 August – not 1 August. As a result, her mortgage was on the higher standard variable rate (SVR) for that short period.

Ms S complained. She said she had called HSBC to discuss the transfer and overpayment on 29 July but had been left confused. She had understood that her new interest rate would start on 1 August not 8 August and she was concerned she had been overcharged as a result. She also added to her complaint that no payment was taken on 1 September – she was concerned that there might be a problem with her direct debit and that she would be reported as being in arrears.

HSBC agreed that it had caused confusion about the start date of the new interest rate. It refunded additional interest charged between 1 and 7 August, and offered Ms S £350 compensation. Ms S didn't accept that and brought her complaint to the Financial Ombudsman Service. Our investigator thought HSBC had made a fair offer to resolve things so Ms S asked for her complaint to be reviewed by an ombudsman.

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.

The adviser Ms S spoke to understood her requirements and advised her on the best way to meet them. He arranged a new interest rate to follow on from the existing one, and noted HSBC's system that it shouldn't start before 1 August.

However, it wasn't in fact possible for the new rate to start *on* 1 August. HSBC offered Ms S a new mortgage at a lower balance, rather than just changing the interest rate on her existing mortgage. That's because she wanted to reduce the term to reflect the overpayment as well as change the interest rate – so a new mortgage over a new term was offered, rather

than just varying the interest rate on the old mortgage.

The changes Ms S wanted to make therefore involved setting up a new mortgage account, drawing down the funds to be borrowed, and using those funds to close down and repay the old mortgage account. Because the new mortgage offer was for less than the old mortgage balance, it could only go through if – and when – Ms S made an overpayment to reduce the balance. That overpayment couldn't be made before 31 July, because it would attract an early repayment charge (Ms S having already used her annual 10% overpayment allowance). It could only be made on 31 July – which is what Ms S did. Meanwhile, Ms S's regular monthly payment would be taken on 1 August.

Once the overpayment and the monthly payment cleared, and the balance on the old mortgage reduced to the amount of the new mortgage offer, HSBC could then begin the process of setting up the new mortgage and paying off the old one. But this couldn't be done instantly – because of the overpayment, and because the mortgage couldn't be closed while the monthly payment was in the process of being collected and allocated. Ms S's new mortgage, on the new fixed rate, was never going to be able to start on 1 August.

Because the new mortgage hadn't completed, and so hadn't paid off the old one, the old one continued for a few days. The old fixed rate had expired, so the old mortgage was now charged interest at the SVR. Once the new mortgage completed, the old one was paid off and the new interest rate came into effect.

HSBC paid Ms S a refund of the additional interest – the difference between the SVR and the new fixed rate – for the days between 1 and 8 August. I don't agree with Ms S that it should be eight days interest not seven. Her mortgage was on the SVR from 1 to 7 August – 7 days – and then on the new fixed rate from 8 August onwards. So a refund of seven days additional interest is correct.

That her mortgage wouldn't complete on 1 August should have been explained to Ms S at the start. Ms S complains that it wasn't.

I've listened to Ms S's discussions with HSBC during 2024. Her first call, when she was exploring her options, was on 3 February 2024. The person she spoke to explained that she would need to make an overpayment on 31 July exactly – not before or after – to avoid an ERC on both the old and the new fixed rates. She went on to explain:

“[the start of the new rate] might be slightly after the first of August because that's when your payment comes out and it usually needs to come out of billing so it might be a week later but we can have it all in place so it basically starts as of the first of August, the new mortgage with the new rate and the new term.”

Ms S then asked

“So I wouldn't find myself paying five days on your standard variable rate would I?”

HSBC replied

“They would backdate it, we just can't transfer it over when the mortgage is in billing but we would backdate it for you.”

So at this point it was made clear that the mortgage wouldn't switch over on 1 August – it would be a few days later – but that the interest rate would be backdated. However, this was an initial conversation. Ms S then decided to go ahead, and an appointment with a mortgage adviser was arranged. Following that more detailed conversation, Ms S applied for a new

mortgage with a reduced term and a new interest rate. But the adviser said the new rate would start on 1 August – which wasn't correct, for the reasons I've explained above.

On 25 July, Ms S called to ask how much of her overpayment allowance up to 31 July remained. She said that she understood that she would switch over to a new interest rate on 1 August. The adviser checked and confirmed that a new three year fixed rate had been offered and accepted, and was in place. The adviser confirmed that the new mortgage balance would be for the same amount as the existing mortgage. But she didn't explain that the new mortgage wouldn't complete until 8 August, or that the interest rate would then be backdated to 1 August.

Ms S's mortgage completed correctly. The new mortgage was drawn down on 8 August, and the interest rate was backdated to 1 August, with the additional interest on the SVR in the meantime refunded. This was always how it was supposed to happen. But it wasn't what Ms S was expecting to happen, because she believed her new mortgage would complete on 1 August – although HSBC had given her the correct information at the start of the process in February, it wrongly said the mortgage would complete on 1 August during the advice call and didn't correct that in July.

What ought to have happened is that Ms S should have been told that there would be a gap of a few days between the end of the fixed rate and the start of the new mortgage, to allow time for the overpayment to be made and processed and for the new offer to complete based on the reduced balance, with the interest rate then being backdated to cover the gap. This ought to have been made clear to her all along – instead of coming as a surprise when it happened in August.

It's also correct that no payment was taken on 1 September. This didn't mean that Ms S's payment date had changed. And it didn't mean that she had missed a payment, or gone into arrears – and no missed payment was recorded on her credit file.

As I've explained, the new mortgage could never have completed on 1 August. It was always going to complete around 8 August – as in fact happened. Because this was a new mortgage, the old payment arrangement fell away. But HSBC noted Ms S's continuing preference to pay on the first of each month. When a new mortgage completes, HSBC sets up the first payment to be at least 28 days after completion, and on the agreed payment date. Therefore the first opportunity for a payment to be taken would be around 6 September – but Ms S wanted to pay on the first of the month. So the first payment date of her new mortgage was 1 October – 1 September being too soon.

HSBC did write to Ms S after her new mortgage completed on 8 August to explain that her first payment wouldn't be until 1 October. Ms S says she didn't receive this letter, though it was correctly addressed to her. It may be that it arrived and she didn't appreciate its significance, or it may be that it didn't arrive. Either way, that's not HSBC's fault.

Until Ms S actually made the overpayment and the new mortgage completed, HSBC couldn't be sure exactly what Ms S would need to pay each month, and whether her first payment would be in September or October. I don't therefore criticise it for not sending confirmation of the payment details and date until after completion; it couldn't have been done sooner. But nonetheless HSBC ought to have made Ms S aware that, like the completion date not being 1 August, it was a likely consequence of the change to a new mortgage following an overpayment that there would be no September payment. But it didn't do that.

Overall, I don't think Ms S has lost out financially here. Her new mortgage took effect as it was supposed to – taking into account the overpayment and implementing the new fixed rate she selected. It completed correctly, when it was supposed to, and the monthly payments

thereafter were correct too. She's been refunded seven days of interest, which leaves her in the position she would have been in had the new rate completed on 1 August. HSBC has also made sure that this interest refund does not count towards her overpayment allowance for this year – meaning Ms S can, if she chooses, overpay as much as she would have been able to without it.

However, the lack of information and warning about what would happen caused Ms S understandable upset and confusion. All this ought to have been explained to her in advance so that she wouldn't be surprised and worried when her mortgage initially moved to the SVR, or when no payment was taken in September. HSBC has an obligation to communicate with its customers clearly and fairly, giving them the information they need to make effective decisions. In this case, HSBC had several opportunities to do that but didn't take them, with the result that Ms S was caused understandable upset, confusion and annoyance, as well as having to take time to try and sort things out.

HSBC has offered £350 compensation for that. I know Ms S doesn't think it's enough. But I've thought very carefully about what happened. I've taken into account the Financial Ombudsman Service's guidance on compensation awards, available on our website.¹ It says that an award of up to £300 might be fair for a mistake caused repeated smaller problems or a single larger one, requiring reasonable effort to resolve and an impact that lasts a few days or weeks. And it says that an award of over £300 might be fair where considerable distress upset and worry has been caused that takes a lot of effort to resolve, with an impact that often lasts many weeks or months. Taking that into account, I think HSBC's offer of £350 fairly reflects the impact of a mistake that caused Ms S a significant amount of upset and inconvenience over a few weeks.

My final decision

My final decision is that HSBC UK Bank Plc has made a fair and reasonable offer to settle this complaint. As it has already paid Ms S £350 compensation and refunded seven days of interest to her mortgage, I don't require it to take any further action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 11 June 2025.

Simon Pugh
Ombudsman

¹ <https://www.financial-ombudsman.org.uk/businesses/resolving-complaint/understanding-compensation/compensation-for-distress-or-inconvenience>