

The complaint

Ms T complains that TSB Bank plc applied a refund of service charges to her mortgage unfairly, resulting in her mortgage being repaid.

What happened

Ms T had a mortgage with TSB. In 2023, Ms T made a complaint that TSB had unfairly paid over £9,000 in disputed service charges to the freeholder of the property and added that amount to the balance of the mortgage. We considered that complaint and in 2024 made a final decision. The ombudsman in that case said *“Ms T says that she has now been to the tribunal and is awaiting the judgment. If the tribunal finds that she did not owe some or all of the money paid by TSB to the freeholder, then once the funds have been returned to TSB, it would need to put Ms T back in the position she would have been in had it not paid these funds. This means that it would need to refund the money to the mortgage account as at the date it was applied and also refund any mortgage interest that had accrued on it at that stage.”*

Ms T was successful in the tribunal and as a result the freeholder refunded £9,312 to TSB. There was a delay in applying the refund to Ms T’s mortgage – TSB said that was because initially the freeholder did not provide enough information. But TSB then applied the refund to the mortgage, adjusted interest and refunded any overpayments to the mortgage. That reduced the balance of the mortgage to under £1,000. So when Ms T made the contractual monthly payments that were due her mortgage was repaid.

Ms T considers that TSB should have refunded the overpayments directly to her. She also complains that the service provided by TSB has been poor.

The investigator thought that TSB should pay Ms T £200 for not responding to all of Ms T’s queries.

TSB accepted what the investigator said. Ms T did not. She responded to make a number of points, including:

- TSB did not get her consent to repay her mortgage before the end of its term.
- She booked a holiday because she was expecting to receive the refund directly.
- The ombudsman in the previous case said that the money should be refunded to her.
- £200 did not properly reflect the poor service she received.

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.

TSB has given us evidence that when it first received the refund from the freeholder in

December 2024 it did not include sufficient information for it to identify who the funds were intended for. While Ms T might have provided the necessary information to the freeholder, the evidence I have does not support that it was included when the funds were transferred to TSB. Looking at what happened and the information that was available to TSB I can't see that it made any mistake in processing the funds when they were first received.

In March 2025 the refund was sent again by the freeholder to TSB. This time it included Ms T's mortgage account number, so TSB knew where the funds should go. I am satisfied that the way it applied the funds was fair, reasonable and in line with my colleague's decision in 2024. The decision said that the refund should be applied to the mortgage along with the interest charged to that amount – and that is what TSB has done.

Because the service charges had been added to Ms T's mortgage, the balance was higher than it should have been – and that meant Ms T's mortgage payments were also higher than they needed to be. Therefore TSB was required to calculate how much Ms T had overpaid to put her in the position she would have been in. I consider applying the overpayments to the mortgage in this way is in line with the previous ombudsman's decision. I don't consider TSB has acted unfairly in applying the refund in this way.

By applying the refunds in the way it did it reduced Ms T's mortgage balance to less than £1,000. But TSB did not reduce Ms T's payments – they were still set at the higher amount. That meant when she paid the amounts claimed by TSB the mortgage was repaid in full in April 2025 when Ms T made her contractual monthly payment. I don't think TSB handled this part as well as it should have. It should have recalculated the reduced mortgage balance over the remaining term. That would have meant that the mortgage would have remained in place.

But I am required to determine what I consider is fair and reasonable in the individual circumstances of this complaint. TSB has said it would not reinstate a mortgage that has been repaid in this way – and that would be required if I were to find that TSB should refund the overpayments directly to Ms T.

After careful thought, I do not consider it would be fair or proportionate to say that TSB should reinstate the mortgage. It would require a reasonably significant amount of administrative and legal work to do so. While there might be certain cases where that might be fair, in this case I consider the refund has put Ms T in the position she should have been in. While there might have been other options she would have preferred, I am satisfied that the method used fairly compensates Ms T for any financial loss. So I do not think it would be fair or proportionate in this case for the mortgage to be reinstated

Ms T said she booked a holiday on her understanding that she would receive a direct refund. I am sorry if there has been any misunderstanding, but I can't see that it was reasonable to understand that she would receive any refund directly – and I've already found that the way TSB applied the refund was fair.

TSB has not handled this matter very well. I've already found that it should have taken greater care when applying the refund to adjust the payments so that the mortgage was not repaid. And I accept what Ms T has told us about the service it provided. But taking that all into account, I think the payment of £200 proposed by the investigator fairly compensates Ms T for any distress or inconvenience caused by this matter.

My final decision

My final decision is that TSB Bank plc should pay Ms T £200.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 4 February 2026.

Ken Rose
Ombudsman