

The complaint

Mr S complains about the way Bank of Scotland plc trading as Intelligent Finance (IF) has managed his offset mortgage. In particular, he doesn't think it fair that he's been charged interest even when the borrowing balance is fully offset by the savings balance. He says it's unfair of IF to charge, and expect him to pay, interest in those circumstances.

What happened

Mr S has an offset mortgage with IF – a mortgage with a linked savings account where the balance of the savings account is taken into account when calculating interest on the borrowing. The capital offsets the borrowing such that mortgage interest is charged on the net position rather than the outstanding balance in lieu of interest being paid on the savings.

Since around April 2023, Mr S has had a balance in the savings account that matches or exceeds the balance of the mortgage. In those circumstances, he says that no mortgage interest should be chargeable as the borrowing is fully offset. Mr S therefore complains that IF continues to charge him interest and to demand payment of that interest. He also complains that IF has reported him to credit reference agencies when he has withheld payment that he doesn't think is properly due.

Mr S previously complained about this in 2022. IF said that even if the mortgage balance wasn't fully offset, that didn't mean that no payments would ever be due, and it explained why. Mr S wasn't happy with that explanation and referred the complaint to us. The complaint was considered by one of our Ombudsmen and he didn't uphold it.

Mr S made a new complaint in 2024. IF said it wouldn't consider the same issues again, so Mr S brought his complaint to us. An Ombudsman colleague decided that we would not look again at the issues that were looked at in Mr S's last complaint. But that the Financial Ombudsman Service will consider whether IF has fairly operated the offset facility of Mr S's mortgage since 23 August 2022.

Our Investigator went on to review those parts of the complaint the Ombudsman decided we would consider. He concluded that there wasn't anything to indicate the offset facility was operating incorrectly. And so, he didn't think IF should do anything differently.

Because a resolution couldn't be reached, the complaint has been referred to me to decide. I reached a different outcome to the Investigator on part of the complaint, so I issued a provisional decision.

My provisional decision

I said:

“For completeness, I confirm that I agree with my Ombudsman colleague that the Financial Ombudsman Service will only consider whether IF has fairly operated the offset facility of Mr S's mortgage since 23 August 2022. I've set out my decision regarding that below.

I can see that Mr S has had a balance in the savings account linked to the mortgage which has either been equal to or has exceeded the mortgage balance since around April 2023 – Mr S has referred to this as the mortgage being ‘fully offset’. It’s clear that Mr S is concerned that IF is incorrectly administering his offset mortgage in some way, because it has still asked him to make payments on several occasions, despite the mortgage being fully offset.

However, I am not persuaded IF has incorrectly administered Mr S’s offset mortgage. The way offset mortgages operate isn’t straightforward. And simply having a savings balance that is the same as, or more than, the mortgage balance does not mean that mortgage payments will never be due – even where that offset mortgage is interest only. This is because of the way the mortgage payments and offset benefit are calculated.

IF calculates the monthly interest based on the account balance at the applicable interest rate. It then divides that by 12, to give a monthly figure for interest due each month on the mortgage. IF separately calculates the daily interest due on the savings balance – the offset benefit.

When IF then compares the two amounts – the monthly interest for the mortgage and the offset benefit on savings – there will be occasions where there’s a difference. By dividing the annual mortgage interest by 12 to calculate the monthly amount due, it gives 12 monthly interest charges based on 30.42 days – 365 days in the year divided by 12. This is a legitimate, and not unusual, way for IF to calculate the monthly mortgage interest due.

The offset benefit, however, is calculated for the previous month based on the actual benefit earned, rather than a projected amount, and some months have less than 30.42 days. The impact of this is that the offset benefit earned in the previous month will not always be sufficient to cover the full mortgage payment which is due in the current month.

For example if the regular mortgage interest payment due is £1,000 and the offset benefit has been calculated in a month that has less than 30.42 days (February, April, June, September and November), then the offset benefit might be around £986 for a 30-day month – approximately £14 short of the mortgage payment. A payment would, therefore, be required to cover the difference. But in months that have 31 days, the offset benefit would exceed the monthly mortgage interest due. Where that applies, no mortgage payment would be due in the following month.

IF cannot reasonably predict what its customers might do with their linked savings account (or other linked accounts) in advance. And the way it calculates the offset benefit helps to ensure the mortgage account doesn’t become underfunded. In a situation like Mr S’s, where he has savings that are equal to or more than the mortgage balance, that will likely lead to some small reductions in the mortgage balance. But I don’t consider it’s unfair or unreasonable for IF to calculate the offset benefit and the monthly interest payment due on the mortgage in this way, to ensure things are kept on track. And I’m satisfied it is in line with the account terms and conditions. This is not a straightforward interest only mortgage, and so some aspects work slightly differently.

I know Mr S feels very strongly that IF has been incorrectly administering his offset mortgage, but I am unable to agree that is the case. I don’t, therefore, require IF to do anything differently in relation to that. I hope, however, that my independent review of the complaint goes some way towards helping Mr S to achieve closure on

this matter.

I note Mr S is also concerned about the information IF has reported to credit reference agencies because he hasn't made the mortgage payments IF has requested. The information lenders report to credit reference agencies should be a true, fair, and accurate reflection of the account conduct. Here, I can see that Mr S has chosen not to make the payments IF has requested and I can see IF made Mr S aware it may report information to credit reference agencies as a result. It could be argued, therefore, that Mr S has had opportunities to mitigate the situation. However, as a starting point I don't provisionally think that reporting the account as having had missed payments, in this individual case, is a fair reflection of what's happened overall. I'll explain why.

Mr S's mortgage is split into two parts and, due to the way this mortgage account and offsetting operates, it is the second much smaller part of the mortgage that partial payments have been required on. However, IF has been reporting the mortgage as one overall account with credit reference agencies, showing that the entire account is in arrears. I would expect a lender to report a mortgage as having a missed payment only once the shortfall amount is equal to or more than one contractual monthly payment for the overall mortgage, where it reports it in this way. The total contractual monthly payment on Mr S's mortgage before any offsetting is around £2,500, and I cannot see that the payment shortfall has ever reached or exceeded that amount during the period I am considering.

In all the circumstances, I don't consider reporting Mr S as having missed payments on this mortgage is a true reflection of the overall mortgage account conduct. That is because the shortfall amount does not equate to the same or more than the contractual monthly payment required before any offsetting. So, in the individual circumstances of this complaint, I provisionally consider that IF should remove the adverse credit file reporting it has made regarding monthly payments due on Mr S's mortgage, from 23 August 2022 to date. I do not intend to require IF to do anything further than that.

To be clear, my decision doesn't mean that IF acted unfairly in asking Mr S to make those payments. Even if they are not reported to his credit file, those payments will still be outstanding, and IF will be able to require Mr S to make them – and there will be other consequences if they remain unpaid (such as additional interest on the unpaid amounts being incurred)."

Responses to my provisional decision

IF maintains that it's administered Mr S's mortgage in line with the terms and conditions. But, in any case, it has accepted my decision without admission of liability.

Mr S didn't accept my decision. He reiterated his concerns that the offset facility has not been administered by IF as it should be. He also referred to some more recent issues he's been having with accessing his account and IF not responding to his correspondence.

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.

I appreciate Mr S feels strongly that IF has been incorrectly administering his offset facility and I've reviewed again the conclusions I reached in my provisional decision. Having done

so, however, I see no reason to depart from them.

Mr S has again explained his expectations of how his offset facility should work. He hasn't provided any new evidence to support that and I'm afraid I remain unable to agree with him that IF's incorrectly administered his offset facility – for the same reasons I set out in my provisional decision. If Mr S doesn't make the payments that are due, his mortgage balance will continue to increase.

Mr S has asked us to refer him to a person or an organisation he can review his account with. I'm afraid that isn't something I can do. It would be for Mr S to locate a person or organisation to review his account if he wishes to do so. I can only confirm again that I'm satisfied, based on the available evidence, that IF has administered his offset facility correctly and in line with the terms and conditions. The only matter I consider IF has acted unfairly in relation to and should put right is in relation to how it's reported information about the account to credit reference agencies. My view remains that IF should take the steps outlined in my provisional decision to put that right, should Mr S accept my final decision.

Finally, Mr S has raised concerns about some recent issues he's been having with IF. Those issues are not something I can consider as part of this complaint. If Mr S is unhappy with what's happened he'd first need to raise any new issues with IF and if he remains unhappy once it has provided its final response – or if eight weeks pass from when he raises the complaint, whichever is sooner – then he may be able to refer that complaint to this Service under a new reference. To be clear though, we won't revisit any issues we have previously considered.

My final decision

My final decision is that I uphold this complaint in part. If Mr S accepts my decision, then Bank of Scotland plc trading as Intelligent Finance should remove any adverse payment information it has reported to the credit reference agencies about his offset mortgage, from 23 August 2022 to date.

I make no further order or award, and my final decision marks the end of our process regarding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 13 March 2026.

Keith Barnes
Ombudsman