

complaint

Mr and Mrs W complain that Landmark Mortgages Limited didn't explain properly the effect of a payment holiday and is now charging them too much interest. Mr and Mrs W want Landmark to deduct the overcharged interest from the mortgage.

background

Mr and Mrs W have an interest-only mortgage with NRAM which is now administered by Landmark. They were reviewing the mortgage as their property was up for sale. They noticed that the balance which was originally £215,175 had risen to £227,818. Mr and Mrs W had gaps in their mortgage payments. In 2007, Mr and Mrs W took a maternity break and a payment holiday in 2009 and 2010. Mr and Mrs W say that after these breaks their payments increased to make up for the payments that were missed during the breaks. They say that as the missed payments have been added at the end of the mortgage they are paying interest on interest.

Our adjudicator didn't recommend that this complaint should be upheld as he didn't believe that Landmark had done anything wrong. Mr and Mrs W asked for a review saying in summary that they do not believe that interest should be due on the interest that is still owed after a payment holiday.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Mr and Mrs W took a number of breaks from their payments due under their interest-only mortgage. They understood the break to mean that whereas the payments would not then be due that they could be paid in the future but no interest would be added to those payments. Mr and Mrs W say that "*Neither the contract we signed nor the copies of the letters you (i.e. our Adjudicator) obtained from them (i.e. Landmark) state that interest is due on interest that is still owed after a payment holiday.*"

Mr and Mrs W have an interest-only mortgage. When they pay off the monthly payments they are paying off the interest on the then balance that would be due on their mortgage. A payment holiday is normally an agreed interruption in the monthly payments where those payments that would be due by agreement aren't made. Landmark adds these missed payments to the outstanding balance. So the mortgage balance will be increased by these missed payments and interest will be charged on them. As the mortgage is interest-only, there will be interest charged on these missed payments which are now part of the balance. I've looked at whether Landmark can do this and if it Mr and Mrs W should have been aware of it. Landmark has sent us a number of letters that it says were sent to Mr and Mrs W in 2007 and 2009. The 2007 letter refers to a payment holiday of six months duration and says;

"After your payment holiday from September 2007 to February 2008 expires the balance on your account will have increased by the interest charged during the payment holiday period."

The original mortgage offer which has a section on payment holidays and this notes that "*interest will continue to be charged during the payment holiday*".

The 2009 letter says that *“After your payment holiday for May 2009 expires the balance on your account will have increased by the interest charged during the payment holiday period”*.

So, under the terms of the payment holiday, Landmark would continue to charge interest and add that to the balance of the mortgage on which interest is charged. Mr and Mrs W say that this isn't a payment holiday. It seems to operate as an agreed period of grace where Mr and Mrs W don't have to make the monthly payments as they fall due. But, although Landmark agreed to forego payments during this break, it intended to recover these payments together with interest by adding them to the balance of the mortgage. I don't see anything wrong with this. It presumably suited Mr and Mrs W in the short term and it would be normal if a lender missed payments, it would look to recover those missed payments and interest on them.

The letters I have seen would indicate that Landmark made Mr and Mrs W aware of this. Mr and Mrs W don't appear to have received these letters. But they seem to be properly addressed to Mr and Mrs W and dated at the time of these payment holidays so I believe that it was likely that these letters were sent. Mr and Mrs W also say they were told something different by phone. Unfortunately no recordings of the phone calls exist so it's hard to be definite about what was said in phone conversations many years ago. But in my view the letters are clear as to how the payment holiday would impact on the mortgage and are in line with how I would expect this type of agreed break from the contractual monthly payment to operate.

Mr and Mrs W also have said that they understood that their payments were increased after the payments holidays and feel that the account hasn't been adjusted to recognise that. But the account statements indicate that the contractual monthly payment wasn't increased after the 2007 and 2009 payment breaks although the 2007 and 2009 letters invite Mr and Mrs W to contact Landmark if they want the monthly payments to be recalculated. So, the evidence doesn't support Mr and Mrs W's view that they have been overcharged. I can't say that NRAM or Landmark has done anything wrong and I can't fairly uphold this complaint.

my final decision

My decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs W to accept or reject my decision before 20 January 2019.

Gerard McManus
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