

The complaint

Mr B complains that the monthly payments for his interest only mortgage with Clydesdale Bank Plc (trading as Virgin Money) didn't reduce correctly after he made an overpayment.

He asks (in summary) for an apology, that his interest payments are regularised, that Clydesdale abides by the mortgage contract, and compensation for his time and stress.

What happened

Mr B has an interest only mortgage with Clydesdale. He has an interest rate tracker product. Mr B made an overpayment of £50,000 in September 2022. However, his monthly payments didn't reduce as he'd expected. Mr B says Clydesdale is taking money in excess of its entitlement, in breach of contract. He says it tried to introduce additional conditions to the borrow back.

Our investigator said the mortgage balance had reduced by the amount of the payment and the mortgage was operating as it should.

Mr B didn't agree and asked that an ombudsman re-consider 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 B took out a lifetime base rate tracker flexible payment interest only mortgage. In September 2022 he made a lump sum overpayment of £50,000. There were interest rate rises which also affected the amount of interest applied to his mortgage.

Mr B says Clydesdale hasn't reduced his monthly payments in accordance with the mortgage terms and conditions.

The mortgage offer sent to Mr B in 2005 says it will recalculate the amount owed and the amount of interest immediately after receiving a lump sum payment.

The mortgage offer says Clydesdale reserves the right to increase or decrease the monthly payments to take account of changes to the interest rate.

The mortgage offer doesn't say that Clydesdale will automatically decrease the monthly payment after receiving a lump sum. Clydesdale said the monthly payments will only reduce if Mr B requests this. Otherwise, the monthly payments remain the same and any amount in excess of the interest due is applied to reduce the balance.

Clydesdale says this is because the terms of the mortgage allow Mr B to request a payment holiday or borrow back. Clydesdale says it will arrange for Mr B's monthly payments to be reduced if he agrees to this, but this will affect the borrow back.

Mr B says Clydesdale is seeking to introduce additional conditions to the borrow back. I don't

think Clydesdale was seeking to change the mortgage terms and conditions when it wrote to Mr B saying this. The mortgage offer says Clydesdale reserves the right to refuse the request for a borrow back or payment holiday so it doesn't need to introduce conditions. I think Clydesdale was making Mr B aware that a reduction in his monthly payments might affect a request for a borrow back. Mr B says this is irrelevant as he has no intention of requesting a borrow back or payment holiday. Nonetheless, I think it was right and fair for Clydesdale to make Mr B aware of this.

Mr B says as his mortgage is interest only Clydesdale has no right to require him to make capital repayments through monthly overpayments. While the mortgage is interest only, it also has flexible features and Clydesdale has explained that this is why it doesn't automatically reduce monthly payments. But, in any case, I don't think Clydesdale is requiring Mr B to make overpayments. It said it will arrange for his monthly payments to be reduced if Mr B confirms that what he wants.

Mr B says Clydesdale hasn't identified a contractual provision that allows it to operate the mortgage this way. Equally though, Mr B hasn't identified a contractual provision that says Clydesdale must automatically reduce the monthly payments following an overpayment, without him asking for this.

Mr B drew attention to a statement in the mortgage offer underneath where the monthly payments are set out. This says the "payments above cover only the interest on your mortgage and do not cover the cost of repaying the capital borrowed". I don't think a warning that the borrower needs to make their own arrangements to repay the capital amounts to a contractual term requiring Clydesdale to reduce monthly payments following a lump sum overpayment.

I appreciate that Mr B would prefer the mortgage to operate in a different way. But I don't think Clydesdale has made an error or been unfair in how it administered Mr B's account following his lump sum overpayment.

Clydesdale sent a letter to Mr B about the need to repay the balance when the term expires. Mr B considers these reminders to be unnecessary and says he has robust plans in place to repay the balance. While I'm pleased that Mr B has a robust plan to repay the mortgage, I don't think it was unfair for Clydesdale to send the letter.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 10 April 2024.

Ruth Stevenson
Ombudsman