

The complaint

Mr K has complained that Bank of Scotland plc trading as Halifax reduced the amount of his Contractual Monthly Payment after he'd made overpayments on his mortgage, instead of reducing his mortgage term. Mr K claims that he's suffered a financial loss as a result.

What happened

Mr K started his mortgage with Bank of Scotland plc trading as Halifax (Halifax) in July 2019. This was a repayment mortgage, under the terms of which Mr K was able to make overpayments of 10% of the mortgage sum a year without triggering an early repayment charge.

On 5 October 2019 Halifax wrote to Mr K to say that they were going to start doing an annual check on his mortgage. This annual check didn't go ahead in 2020 but Halifax did issue annual statements in 2020, 2021 and 2022. These statements said: *"Update about your yearly mortgage payment check. In 2019, we wrote to you about bringing in a yearly check with your annual mortgage statement to make sure your mortgage payments are on target. We have not done this yet but will let you know when your first yearly check happens"*.

Mr K took out a mortgage transfer product with Halifax in 2021. Halifax say that Mr K was sent an *"Information about your mortgage document"* when he took out his new mortgage product.

Mr K made overpayments to his mortgage in early 2023. Mr K has said that these overpayments total £1,815. The overpayments were within the 10% allowed under the mortgage terms.

On 27 June 2023 Halifax sent Mr K a mortgage product transfer offer. Mr K decided to proceed with the new mortgage product offer which had a start date of 1 November 2023. Halifax then wrote to Mr K again on 2 September 2023 to tell him that they'd completed a check on his mortgage and as a result from October 2023 his monthly payment would change from £380.77 to £252.30.

Mr K complained to Halifax and decided that he would no longer proceed with the above mortgage product transfer offer. He said that he wanted his overpayments to reduce the term of his mortgage but because Halifax had reduced his Contractual Monthly Payment this would have the effect of cancelling out the overpayments that he'd made. Mr K said that he wanted his overpayments returned and his Contractual Monthly Payment recalculated. Mr K also wanted to receive compensation for Halifax's actions.

Halifax didn't uphold Mr K's complaint. They said that under the terms of Mr K's mortgage, overpayments reduced monthly payments and not the mortgage term. Mr K therefore brought his complaint to the Financial Ombudsman Service.

One of our Investigators reviewed Mr K's complaint. Their view was that Halifax hadn't done anything wrong and that Halifax had now, as a gesture of goodwill, offered to refund the overpayments to Mr K and recalculate his monthly payments, as he said he wanted.

Mr K didn't accept our Investigator's view. He said that he still also wanted to receive compensation from Halifax. Mr K asked for his complaint to be brought to 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.

Mr K made overpayments of £800 on 27 January 2023 and £815 on 10 February 2023. These overpayments total £1,615 and not £1,815 as Mr K has initially claimed. Mr K has agreed that his overpayments total £1,615.

I've seen the document headed "*Information about your mortgage*" that Halifax say was sent to Mr K in 2021. Page 24 of this document says:

"Will overpayments reduce my term? No. Overpayments will not reduce your mortgage term. Whenever we recalculate your monthly payment, we will use the reduced balance to work out the new payment over your existing term.

If you want to use regular overpayments to repay your mortgage sooner, but don't want to formally change the term of your mortgage agreement, remember:

- *Any recalculation of your monthly payment will include the overpayments.*

This means that if you only pay the new monthly payment, your loan will be repaid over your existing mortgage term. If you would like to permanently reduce the remaining mortgage term, you will need to speak to a qualified Mortgage Adviser, who will discuss your current and future plans with you."

This is clearly saying that overpayments, such as those made by Mr K, will not reduce his mortgage term. Instead, they will reduce his mortgage balance. This reduced mortgage balance is then used to recalculate Mr K's monthly repayments over the remainder of his mortgage term. Halifax say that they will do this whenever they recalculate Mr K's monthly payments.

This is what happened when Halifax wrote to Mr K on 2 September 2023 to tell him that they'd completed a check on his mortgage and that from October 2023 his monthly payment would reduce to £252.30.

Halifax is also saying above that if Mr K did want to use his overpayments to reduce his mortgage term, then he could discuss this with one of their mortgage advisers. But I've not seen any evidence to show that Mr K did this at the time of making the overpayments. As a result, Halifax reduced Mr K's monthly payments, in line with the above section in their "*Information about your mortgage*" document.

Mr K has said that he decided not to proceed with Halifax's mortgage product transfer offer in 2023 because they didn't use his overpayments to reduce his mortgage term, as he wanted. Mr K claims that Halifax's actions don't allow him to pay off his mortgage in two years as he also says he wants.

But I don't think that Halifax has done anything wrong. They applied Mr K's overpayments in line with the terms of his mortgage as detailed above.

Mr K has said that he wants Halifax to return his overpayments of £1,615 and then recalculate his monthly payments. Halifax has said that as a gesture of goodwill they will do this. I think that this means that Mr K will get the outcome that he says he wants.

However, Mr K says that he also wants to receive compensation for the errors that he claims Halifax has made. But as I've said above, I don't think that Halifax has done anything wrong, so I don't think it would be right for Halifax to pay Mr K any compensation. I therefore don't uphold Mr K's complaint.

My final decision

My final decision is that I don't uphold Mr K's complaint against Bank of Scotland plc trading as Halifax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 18 June 2024.

Ian Barton
Ombudsman