DRN-4897053

The complaint

Mr and Mrs T complain that Bank of Scotland plc trading as Halifax has been wrongly allocating the payments they made to their mortgage, resulting in underfunding. They were unhappy about how much their monthly payments had increased, as a result.

What happened

Mr and Mrs T said that in April 2024, out of the blue, they got a letter from Halifax saying they were over £22,000 in arrears on their mortgage. No explanation of this was provided, they'd received no previous notification of arrears, and all their monthly payments had been made as requested. They told us they contacted Halifax immediately, and Halifax couldn't immediately explain the problem. It said it would look into things.

Mr and Mrs T said that Halifax then told them it had been allocating their mortgage payments unequally, prioritising the sub-accounts which were on the higher interest rate. Mr and Mrs T said they never asked for this. They were very concerned about how these arrears would affect their credit ratings. They said there was never any mention of anything untoward on their annual statements over the four year period that Halifax said this had been going on for, and at each interest rise their payments went up, so they had no reason to think anything was amiss

Halifax said it would reconstruct their mortgage accounts, and it would make sure their credit files weren't affected. Mr and Mrs T said they'd agreed to this, but then Halifax said their monthly payments would go up by over £250 a month. Mr and Mrs T said Halifax was passing its error on to them to repay over the remaining term of the mortgage.

Halifax also said it had fixed their credit files, but Mrs T said she had applied for credit, just to check that there was no adverse effect of Halifax's action, and she was declined straight away. Halifax also said it would pay Mr and Mrs T £200 in compensation, but Mrs T said she didn't want to accept that. She said this had been enormously stressful for them both. Mrs T thought Halifax should write this off as it was Halifax's mistake.

When this case came to our service, Halifax said it accepted it had made a mistake, but it thought it had now put things right. It said that in June 2020, the payment allocation on this mortgage was changed, so payments were disproportionately allocated to two sub-accounts which were incurring the highest interest rate. Halifax said it didn't know why this happened, it could only assume it was a mistake.

This change in payment allocation meant two sub-accounts were overpaid, and the remaining sub-accounts were underpaid. Although this evened out overall for the previous four years, so there were no arrears on the account while the two higher interest sub-accounts were still in place, it meant that once those two sub-accounts were paid off in early 2024, the mortgage was suddenly plunged into arrears.

Halifax said this may have affected Mr and Mrs T's credit files, but it has shown us that it rectified this problem.

Halifax also said the way Mr and Mrs T's payments had been allocated, meant that when interest rates rose, the monthly mortgage payments didn't rise sufficiently to keep pace with these changes. So Mr and Mrs T's mortgage had been underfunded by almost £5,000, over the last four years. Halifax said it had paid this to Mr and Mrs T's mortgage. It had adjusted the interest to reflect what would have been charged, if payments had been applied as expected. And Halifax said it paid £200 in compensation.

Halifax said it understood Mr and Mrs T were unhappy that their monthly payment increased from around £760 in March 2024 to about £965 in June 2024. Halifax knew that Mr and Mrs T wanted their monthly payments to stay the same, moving forward, but it said that if the account had been operating properly, Mr and Mrs T would have paid more in the last few years, and their payments would have already been much higher than £760. So Halifax wouldn't hold their payments at the old level. It said the sub-accounts were on variable rates, and Mr and Mrs T might want to consider taking out a new mortgage rate deal on some or all of these accounts.

Halifax said it had paid £200 in compensation for the distress Mr and Mrs T would have been caused by what had gone wrong, in particular receiving an arrears letter out of the blue.

Our investigator didn't think this complaint should be upheld. He said it was clear Halifax had made a mistake, but Halifax had reconstructed the account to put Mr and Mrs T back into the position they would've been in had the error not occurred. As part of this, Halifax recognised that Mr and Mrs T had been paying less than they should have been asked for, for the last four years. Halifax covered this difference, which was a little less than £5,000. Our investigator said the higher monthly payment Halifax was asking for now, was only what Mr and Mrs T should've been paying, had the error not occurred in June 2020.

Our investigator said that whilst Halifax had caused distress by sending an arrears notice, it then acted quickly to engage with Mr and Mrs T, explain its mistake, and put things right. And it made sure there was now no effect on Mr and Mrs Ts credit files for the period. Our investigator said that what Halifax had done, plus a payment of £200 which it made, was fair.

Mr and Mrs T didn't agree. They said they felt very strongly they were being penalised for a mistake that Halifax made. Although it had corrected the error, this came at huge financial cost to them, in terms of the very significant rise in their monthly payments. But our investigator said this higher payments would always have been due, if Halifax had not made this mistake. Because no agreement was reached, this case was passed to me for a final decision.

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've reached the same overall conclusion on this complaint as our investigator.

It's clear that something has gone wrong here. Halifax accepted responsibility for changing how Mr and Mrs T's monthly mortgage payments were allocated, in June 2020. And it has shown our service how this impacted the monthly payments that Mr and Mrs T were making. So, whilst these payments did rise slightly each time interest rates changed, those increases weren't enough to keep this mortgage on track to be paid off at the end of the term.

Halifax has explained why this underpayment to the mortgage happened. There's no suggestion that Mr and Mrs T ever paid less than they were asked for, but it's also clear that the amounts Mr and Mrs T were being asked for, were wrong, and too low. That means that Mr and Mrs T have been at least partly insulated from the increases in mortgage costs over the past four years, before this mistake was discovered.

When Halifax realised what had happened, it made up this shortfall for Mr and Mrs T. It has credited their mortgage account with just under £5,000 of payments that Mr and Mrs T didn't make (because they weren't asked to). Although I appreciate that all of this came as a great shock to Mr and Mrs T, I cannot ignore when I'm considering this complaint, that Mr and Mrs T have been around £5,000 better off, over the past four years, because of the mistake that Halifax made, and that Halifax has made up this mortgage underfunding for them.

I think Halifax responded extremely quickly when it realised this mistake had been made. It put things right, as best it was able to. It ensured there were no negative markers on Mr and Mrs T's credit file. And it paid them £200 to make up for the distress and inconvenience that they'd been caused.

Mr and Mrs T say that our service hasn't taken account of the impact this had, because they are suddenly being asked to find around £200 more each month to pay their mortgage. I appreciate that this would be upsetting and difficult for Mr and Mrs T. But Halifax made a mistake some years ago, which meant it has unwittingly been asking Mr and Mrs T for less than it ought to have been requesting each month, over some years. I understand the difficulties a sudden rise in mortgage payments could be expected to cause Mr and Mrs T, but I don't think it would be fair and reasonable to require Halifax to continue to subsidise this mortgage, for the remainder of its term, or indeed for any longer now that the mistake has been uncovered and put right.

Halifax has suggested that Mr and Mrs T may want to consider reviewing the rates on their mortgage. I hope they will feel able to explore this suggestion.

I know Mr and Mrs T will be disappointed, but I don't think this complaint should be upheld.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T and Mrs T to accept or reject my decision before 30 September 2024.
Esther Absalom-Gough
Ombudsman