

The complaint

Mr R says he wants National Westminster Bank Plc to apply a payment of Support for Mortgage Interest (“SMI”) to the repayment part only of his mortgage. Although NatWest has previously agreed to do this, Mr R says it’s never happened.

What happened

Mr R told us he’d taken out an SMI loan with the Department for Work and Pensions (“DWP”) to make contributions towards his monthly mortgage payments. The payments he received were backdated to 2018. Mr R said he’d actually been meeting his monthly mortgage payments in full, before the loan was approved. So he said the backdated payments he received in 2023 were effectively an overpayment on his mortgage.

Mr R said his mortgage is in two parts. He has a repayment part (Account 1) and an interest only part (Account 2). Mr R said he accepted this loan so he could reduce the monthly payment on his mortgage. But he said NatWest had apportioned part of the backdated payment to Account 2, so that balance reduced. Mr R said that meant NatWest had forced him to pay interest twice, and favoured NatWest. He also said it prevented him from reducing his monthly payments for over twenty-six years.

Mr R said this was contrary to the purpose of an SMI loan. He wanted NatWest to use all the backdated payment towards his repayment account. He thought NatWest should put him in the position he would have been in if he had accepted the SMI loan in 2018, and work forward from there. He said any overpayment would, in that circumstance, have been used to reduce the repayment part of his mortgage.

NatWest accepted it had made some mistakes when it was telling Mr R how the backdated SMI payments to his mortgage would be treated, because it did repeatedly tell him it would apportion these to the repayment part of his lending, and it hadn’t done that. But it didn’t think it had made a mistake in how the payments were actually assigned.

NatWest also accepted it had given Mr R poor service on 29 November, when he called about a small payment due on his account and was told he didn’t owe anything. His payment was due the following day, and NatWest said Mr R should have been told that. It had also taken a long time to respond to his complaint. So NatWest said it wanted to pay Mr R £250 in compensation.

When this complaint came to our service, NatWest said it couldn’t assign the backdated DWP payment to a specific part of Mr R’s mortgage. It said its understanding was that DWP decides on the purpose of the payment, and here it was simply to pay the mortgage, so NatWest was applying it to both parts.

Our investigator didn’t think this complaint should be upheld. She said SMI only covers mortgage interest, it doesn’t cover capital repayments. And payments aren’t set by reference to the mortgage interest rate Mr R is paying to NatWest. SMI is paid at a standard rate for all recipients. Mr R’s current mortgage interest rate is higher than the interest rate used to calculate SMI, so he’s paying the shortfall each month.

Our investigator said NatWest had given Mr R wrong information, when it told him that it had assigned all the backdated payments to his repayment account. She thought it was applying all the SMI to both accounts, proportionately. Our investigator said NatWest had told us it couldn't do what Mr R wanted. She thought the payment Mr R was receiving was based on both accounts qualifying for support, so the payment should be applied to both accounts. So she didn't think NatWest had to do what Mr R wanted.

Our investigator said she also understood NatWest failed to inform Mr R on 29 November 2023, that a mortgage payment would fall due the next day. So there was then a shortfall. Our investigator thought the sum of £250 that NatWest offered Mr R for these mistakes was fair.

Mr R didn't agree. He replied saying our investigator had got the maths wrong, when she said that if his payments were only applied to one sub-account he would pay more. Our investigator replied to say that she thought DWP was paying SMI based on both his sub-accounts, not just one, and if it was just paying for one, he would receive less each month.

Mr R then wrote again. He said his total monthly payment only changes if the base rate changes, or if he falls into arrears. The SMI payment doesn't cover all of his monthly payment. And he said he'd still pay the same each month, no matter how his payment was assigned. What he wanted us to look into was the backdated payments credited to his mortgage in 2023, and how those were apportioned.

Mr R said if he'd taken the help he was entitled to in 2018, then he would only have overpaid on the more expensive part of his mortgage, the repayment mortgage. Mr R said he didn't take help then, instead he kept paying his mortgage each month, although this became increasingly difficult.

Mr R said DWP doesn't decide how any SMI payments it makes should be allocated. He didn't think there was any evidence to support that. He thought the SMI had just been assessed on the whole mortgage balance.

Mr R said the backdated payments were to cover interest accrued from 2018 to 2023, but he'd already paid all the interest due in this period. He thought the decision on how to apportion those backdated payments was made by NatWest, and he wanted our service to put him in the position he would be in now if he'd accepted this loan in 2018. He said the additional payments he had made during this time should be assigned to Account 1, his repayment account. Mr R thought if we didn't do that, then our service was making him pay the interest twice. He also said it would take longer to repay his mortgage if he were to overpay Account 2 before Account 1.

Mr R also said that he'd agreed with NatWest that he would repay Account 2 with the sale of his home. And the loan made to him by the DWP, which generated the SMI payments, would also need to be repaid on the sale of the property. He thought the most financially sensible decision was for any overpayment to go to Account 1.

Because no agreement was reached, this case then came to me for a final decision. And I then reached my provisional decision on this case.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

Mr R says he is considerably worse off because of what NatWest has done, and he has argued that what NatWest has done will prolong his mortgage. Although I don't think all the allegations Mr R makes about his mortgage are right, I do think NatWest should do something differently here.

I should note at the outset that, although Mr R says he wants to pay off his mortgage sooner, he has also told NatWest he wants to reduce his monthly payments, and in June 2023 asked to increase his mortgage term. Mr R also says the repayment vehicle for the interest-only part of his mortgage is the sale of his home, but NatWest understands he has savings which will be used for this purpose.

And it's also important to bear in mind that the two parts of Mr R's mortgage are on the same interest rate. So, although he said one was more expensive than the other, NatWest isn't charging more for the borrowing on one part of his mortgage than it is on the other.

Mr R does have two different accounts, and those accounts each work differently. Account 1, which Mr R would have liked all the backdated SMI money to go to, is a repayment mortgage. For the same balance, the monthly payments on a repayment mortgage will always be a little higher, because that monthly payment has to cover the interest and also reduce the capital balance each month. And here, the balance of Mr R's Account 1 is a little higher than Account 2, so that's another reason why the monthly payment for Account 1 is a little higher too.

Account 2 is interest only. So Mr R doesn't usually contribute each month to reducing the capital on that account. And here, the balance is a little lower, so the monthly payment is a little lower.

When Mr R applied for a backdated SMI payment, DWP worked out how much he was entitled to, based on his overall mortgage debt, not on just one of the two accounts he has. And because of this, NatWest then shared the payment between the two accounts.

Mr R said this should be treated as if he'd taken this support in 2018. But I don't agree that this is a fair way to treat this mortgage. Mr R chose not to take that help at the time. I don't think NatWest has to rework this mortgage to backdate the recent SMI payment to 2018.

Because Mr R doesn't usually pay towards the capital balance on Account 2, he thought that meant any SMI money which was paid into this account, was just used for interest. But it wasn't. Although Mr R doesn't usually pay towards the capital on this account, that doesn't mean he can't do so. And I can see the capital balance on this account has been reduced by the backdated SMI payments.

The balance of Account 1 reduced by about £5,100 between 1 July and 1 September 2023. And the balance of Account 2 reduced by about £5,300 in the same period. The interest Mr R incurs each month on Account 2 has also reduced because of this.

NatWest has told our service it can't do what Mr R wants, which is to apply these backdated payments only to Account 1. But it doesn't appear to have apportioned the payment fairly between the two accounts, because Account 2, the interest-only account, has been reduced by more than the Account 1, the repayment account, although the balance of Account 2 was actually lower.

Any overpayment which is made to Mr R's repayment account, has more of an impact on his monthly mortgage payment, than an overpayment made to his interest only

account. Mr R could make slightly smaller monthly payments now, if the SMI funds were applied to his repayment account.

Mr R has spoken to NatWest about his mortgage in the last few years, requesting changes that I've mentioned above. As well as those, Mr R recently asked NatWest to change his mortgage to interest-only for a short period, and that period has now ended.

I think it's likely Mr R is finding it difficult to pay his mortgage at the moment. Rules around mortgage lending require lenders to consider considerable forbearance when someone has a payment shortfall. Whilst Mr R is not currently in arrears, I do still think it's reasonable to ask NatWest to offer a small amount of flexibility, to help Mr R avoid that position.

I don't think it's reasonable to ask NatWest to backdate Mr R's payment of SMI, as if it was made in 2018. Nor do I think that NatWest has to change how it apportions future SMI payments for Mr R.

But I do think I have to bear in mind that in summer 2023 Mr R's mortgage received lump sum payments for arrears of SMI, which cover a time when Mr R had continued to pay his monthly mortgage payment, without support he could have claimed at the time.

Because the mortgage wasn't in arrears when the backdated SMI payment was made, that lump sum backdated SMI payment has repaid some of the capital balance of the mortgage, not just the interest.

Another way of looking at this, is that the payment of SMI which Mr R's mortgage has received now (as well as being a loan which Mr R needs to pay back) also means that Mr R has, with the benefit of hindsight, overpaid on this mortgage for some time.

As I've set out above, NatWest divided the lump sum backdated SMI payments between Account 1 and Account 2. By applying part of that SMI payment to Account 2, the interest-only element of the mortgage, Mr R's interest-only mortgage balance has reduced. But if all of that lump sum SMI payment were credited to the part of the mortgage that Mr R is paying on a capital and interest repayment basis, that would have a bigger impact on Mr R's overall monthly mortgage payments in future.

In the particular circumstances of this case, I think it's reasonable to say to NatWest that it should apply any part of the SMI lump sum back payment which has not been used to cover Mr R's monthly interest payments, to Account 1, Mr R's repayment account. I think NatWest should rework Mr R's mortgage so that the lump sum payments of backdated SMI that it received in summer 2023 are applied in this way.

I understand that, going forward, Mr R's monthly repayments are not fully covered by the SMI loan, so he will need to continue to pay towards this mortgage to avoid falling into arrears. Mr R has indicated that he would like to pay more than this, if he can. Although I think NatWest should divide any future payments of SMI between Mr R's two sub-accounts, in proportion to the respective interest payments due, I should say for the avoidance of doubt, that this would not stop NatWest from applying any future overpayment that Mr R himself may make, to the sub-account he would prefer to pay down.

I can see that NatWest has offered to pay Mr R £250 in compensation, for wrongly telling him the backdated SMI payment would be paid to Account 1, and for telling Mr R that his mortgage was up to date on 29 November, failing to warn him that a further payment then fell due on 30 November. I don't think NatWest's offer fully reflects the

effect these problems have had on Mr R, so I will ask NatWest to pay Mr R £500 instead. NatWest can count towards that amount, the amount of £250 it previously offered, if that has already been paid.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both sides replied.

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.

NatWest acknowledged receipt of my provisional decision, but didn't offer any comments.

Mr R replied to say he thought I'd broadly agreed with his position, and he was pleased to see that. He said I'd noted NatWest understands he has savings which will be used to repay the mortgage, and Mr R stressed that he did not. He pointed out that this just wasn't likely, given the financial situation he'd described, and said he wanted me to correct this error.

My provisional decision didn't say that Mr R actually has savings, and I accept what he says about this now. But I can see NatWest has understood at some points that Mr R was going to clear the outstanding mortgage, once the term was up, using savings. I don't know if this remains NatWest's understanding, and I would encourage Mr R to discuss this directly with NatWest if he has concerns about this.

Mr R felt he should never have had to get to the point of making this complaint, and bringing it to our service. He said NatWest's previous payment of £250 related to a separate complaint about whether his existing mortgage payments were up to date. He thought that should remain separate from the above issues. He felt this complaint about the apportioning of his backdated SMI payments should be assessed on its own merits. Mr R said this had been utterly exhausting, and he said £250 fell short of feeling remunerated. So Mr R said he was asking for more compensation, to reflect the independent nature of this complaint which had been exhaustive and time consuming.

I don't think it's right to say that the offer of £250 that NatWest previously made was entirely separate to Mr R's complaint about how his SMI payments were apportioned. The letter offering that payment refers to a number of times when NatWest promised Mr R that his payments would be apportioned in the way he wanted, although that hadn't been done. NatWest said it was upholding this part of Mr R's complaint, and it then offered a payment of £250 for this and other issues.

So I don't agree with Mr R that I should disregard this pre-existing offer, when I'm thinking about a fair and reasonable outcome here. But equally, I don't think, for the reasons set out above, that the money NatWest has already offered Mr R, for this and other issues, was enough to provide a fair and reasonable outcome to the complaint in front of me now.

For the reasons set out in my provisional decision, I do still think a total payment of £500, plus the reworking of Mr R's mortgage in the way I've set out below would provide a fair and reasonable outcome to this complaint. I haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that National Westminster Bank Plc must rework Mr R's mortgage, so that, insofar as the lump sum Support for Mortgage Interest payments it received in July and

August 2023 exceed the monthly mortgage contributions then due on both sub-accounts for Mr R's mortgage, those payments are applied to sub-Account 1 (account ending _253) which operates on a repayment basis.

My final decision is also that National Westminster Bank Plc must pay Mr R £500 in compensation. National Westminster Bank Plc can count towards that amount, the amount of £250 it previously offered, if that has already been paid.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 30 September 2024.

Esther Absalom-Gough
Ombudsman