DRN-5169590

The complaint

Mr and Mrs D complain that they were wrongly advised by Bank of Scotland plc trading as Halifax, about how an interest-only concession on their mortgage for six months would operate. They said their mortgage balance increased because of this.

What happened

Mrs D said she went to a branch of Halifax to discuss her mortgage. Her existing fixed interest rate was due to end at the end of December 2023. Mrs D said the advisor recommended an interest-only product for six months, and then going back to a repayment mortgage. Mrs D said she took that option up, but when the payments started to come out, she noticed the mortgage balance was increasing.

Mrs D said she was told the underlying interest rate on her mortgage had increased. Her fixed rate had ended so she'd gone onto Halifax's Standard Variable Rate ("SVR") which was almost 9%. But the payments during the interest-only period hadn't changed to reflect this. So she wasn't covering all of the interest being charged, and her mortgage debt was going up.

Mrs D said if this had been explained at the start, she wouldn't have accepted this deal. She said she'd complained to Halifax, and it had done nothing. She said she had a recording of a call with the advisor, to prove this, and an email admitting that she'd been given wrong information. But Halifax wouldn't waive the additional amount it had added to her mortgage, which Mrs D said was £7,500.

Halifax didn't think it had done anything wrong. It said customers have to apply for an interest-only concessionary period on their mortgage online. Halifax doesn't provide advice as part of this, and customers can't apply for this in a branch.

Halifax said it could see that Mrs D had started this application online, on 2 November. The application hadn't fully completed online, because of a mistake in one of the names. But Halifax said in order to get as far as Mrs D did with her online application, she had to have read far enough into its web pages to have been told that the reduced monthly payment amount would be fixed for the six months it applied.

Halifax has shown us it offers three options for providing support under the Mortgage Charter, one of which is the interest-only concession that Mr and Mrs D took up. That page provides detailed information on the three options. It states specifically that *"..if you're on a variable interest rate mortgage, or your current fixed or tracker deal is coming to an end, you might want to think about switching to a new deal first."*

That page goes on to explain that if someone takes out the interest-only concession, then *"Your interest payments will be fixed for six months. If you choose to switch to a new mortgage deal or extend your term within these six months, your new deal will start as planned, although your payments won't change until after your interest-only payments have ended."*

Halifax said Mrs D completed her application with the assistance of an agent on 3 November. It has named the agent who input this application for Mrs D, and that's not the same person as Mrs D said had misadvised her. Halifax has also shown our service the script its agents use for this task, and said that makes clear that Halifax isn't offering any mortgage advice.

Once Mrs D's application was complete, Halifax issued her with a letter confirming the arrangement. That letter includes this –

"Your payment is fixed for 6 months. Even if your interest rate changes, your payments won't - until your arrangement ends. If your interest rate goes up, the monthly payments during the arrangement won't cover all the interest charged. And we'll add the difference to your mortgage balance."

So Halifax said it had been very clear on how this arrangement would work. It didn't think Mrs D was misadvised.

Halifax said it wrote to Mr and Mrs D on 1 December 2023 to tell them that the interest rate charged on their mortgage would change at the end of that month, because their previous fixed rate was ending. Halifax followed this up with a second letter, sent on 5 December 2023, to explain their payments wouldn't change until the interest-only concessionary period had expired.

Halifax said in late January 2024, Mr and Mrs D applied for a new rate on their mortgage. It issued an offer for a new fixed interest rate on 26 January, and Halifax said this was applied to their account the next month.

Halifax said it couldn't see that Mr and Mrs D had been misadvised. It thought they must have assumed taking this interest-only concessionary period would mean their existing fixed rate would be extended beyond the agreed term. Halifax said it doesn't do that, and it felt that its website and letters had been clear about what happens in those circumstances. So it wouldn't waive or refund any interest charged to this mortgage.

Our investigator didn't think this complaint should be upheld. He said Halifax doesn't offer its customers personalised advice on whether or not to take up the six month interest-only concession which was introduced as part of the Mortgage Charter. It refers its customers to the Halifax website to check if the scheme is suitable for them, and to apply.

Our investigator said he knew Mrs D had completed her application manually, with Halifax's support. But because Mrs D had completed a form online before this, to take out the interest-only concession, he thought she should have read the online information about the concession. And he noted that Halifax did explain again how this concession would work, when it wrote to Mrs D on 4 November confirming the arrangement was in place.

Halifax wrote again in early December, telling Mrs D how the end of her fixed interest rate would affect the mortgage, under the current concession. That letter reminded her she could cancel the concession if she wanted to.

Our investigator said he'd looked at the email exchange that Mrs D felt showed Halifax had accepted it had made a mistake, and he didn't read this in the same way. He said the advisor said specifically that she didn't know what was in the paperwork that Mrs D was sent, and that Mrs D should complain so the issues could be investigated.

Our investigator didn't think Mrs D had been misadvised. He said she'd been sent information to set out how the concession worked and how it would affect her mortgage. So he didn’t think Halifax had to refund the interest it had charged, and added to this mortgage.

Mrs D replied to disagree. She said it was recorded when she first went into branch, and over the phone a number of times with a named mortgage advisor. She said it was suspicious that recordings of all of her calls and branch visits were lost. She said that if we asked this advisor, she would still say that Mrs D had been wrongly advised.

Because no agreement was reached, this case was passed 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 in part. This is what I said then:

> Mr and Mrs D say that they were misadvised about the effect of the interest-only concession on their mortgage. They say that this happened in branch, and also on calls which Halifax has conveniently lost. Mr and Mrs D have also identified a particular mortgage advisor whom they say misadvised them.
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> I’d like to start by looking at the documentation that Mr and Mrs D received when they applied for the interest-only concession on their mortgage. I’ll then come back to the advice they may have received, before and after putting this concession in place.
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> I can see that Halifax provided a considerable amount of documentation, and this does set out clearly how the concession will operate. So I think it was clear that the monthly payment due throughout the six months of the concession would be set at the start, and that it would not increase throughout this time. But, as Halifax explained, that doesn’t mean the underlying interest rate won’t change either. And here, the interest rate was due to change, as Mr and Mrs D’s previous fixed rate was due to end on 31 December 2023.
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> I think that Halifax did explain all this when Mrs D took out the concession. And it then wrote again at the start of December to explain how the upcoming rate change on her mortgage would work, while the concession was on the mortgage. So I don’t think Mrs D was misadvised about the effect of this concession, at the point when she took it out.
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> But I’ve since listened to a call that Mrs D had with Halifax, when she realised that the underlying rate on her mortgage had changed, and her payments on the interest-only concession hadn’t increased to cover them, so her mortgage balance was increasing.
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> Mrs D spoke to Halifax on 11 January 2024. Unfortunately, I only have a partial recording of that call, because Mrs D’s voice wasn’t recorded. But I can hear what the agent said to her at the time.
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> I should pause here to note that Halifax has said it felt Mrs D had just assumed taking out an interest-only concession would preserve her existing interest rate, until the end of the six month concessionary period. But listening to this call, I think it’s actually most likely that this agent had told Mrs D that this is how the concession would work.
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> On the call, the agent was clearly concerned. She says she can see that Mrs D is now being charged the SVR, and the agent wasn’t aware that would happen. She says Mrs D could cancel the arrangement, and asks her to look again at her paperwork for the interest-only concession. The agent says she hadn’t been trained on this, and she thought that Mrs D would keep her rate, but the agent now realises Mrs D was just

keeping the same level of payments. And that meant her mortgage balance was going up.

I think the advisor accepts on this call that she had suggested Mrs D take out the interest-only concession, and that her understanding of how this would work was wrong. I note in particular that the agent said this –

> *My understanding wasn't quite right, and obviously I gave you this idea, but our purpose was to wait for the better rate, which we are achieving, so we are not in a bad place.*

So I think that something has gone wrong here.

I don't think that means it's wholly Halifax's fault that Mrs D ended up on a six month concession which didn't work in the way she anticipated. I do think that Halifax is responsible for its agent giving Mrs D wrong advice about how this would work. But Halifax did then provide detailed and clear information on how the concession would work, so there was an opportunity for Mrs D to read this, and realise earlier that this wasn't what she wanted.

I also think something else went wrong on this call, because the agent then told Mrs D that she could apply for a new rate, and failed to remind her at this point (when the conversation had moved on somewhat) that she would need to cancel the interest-only concession if she wanted her payments to go back to normal. The agent may simply not have known that. But it does appear to me that the agent was telling Mrs D how to proceed, to get a new rate in place, and unfortunately didn't alert Mrs D to the fact that it wouldn't be enough just to apply for that rate, she would also need to act to cancel the concession.

Halifax then made Mr and Mrs D an offer for a new fixed interest rate deal on 26 January. They accepted this, so Halifax wrote again on 27 January setting out how their new rate would work, under the existing concession on their mortgage.

In this letter, dated 27 January, Halifax said it would apply this new rate to Mr and Mrs D's mortgage from 1 January 2024. It said this even though the letter itself was dated 27 January 2024. Halifax says it thinks this was just a typo.

Halifax's own internal screenshots, which it also sent us, show the rate on Mr and Mrs D's mortgage changed to the SVR on 1 January 2024. It was then changed again, to the new fixed rate they'd chosen, on 1 February 2024.

The letter Halifax sent to Mr and Mrs D did tell them that while the interest-only concession remained on their mortgage, they would continue to pay the amount set as interest-only under their old rate. So the monthly payment for February wouldn't change. But I note that this letter was dated 27 January, so it's very unlikely that this arrived before Mr and Mrs D's payment for February was taken. And that means I think the reason Mrs D didn't realise that her February payment would still be too low, was because Halifax's mortgage advisor hadn't warned Mrs D that she would need to cancel her existing concession, if she wanted to go back to paying all the interest due on her mortgage, and to stop the balance of the mortgage increasing.

We know that Mrs D did take steps to cancel the concession in early February.

Mrs D said Halifax had added around £7,500 to her mortgage because of how it had managed things. But I also note Mrs D was told in January she could make overpayments, to make up the difference in her monthly payments and avoid an increase in the balance. I think this could have avoided most of the increase in the mortgage balance. And I don't think it would be fair to ask Halifax to remove the increased balance, where it is merely a reflection of reduced payments made by Mr and Mrs D.

There was one month however when the increased balance was not solely a reflection of reduced payments made by Mr and Mrs D. That's January 2024, the one month when Mr and Mrs D were charged the SVR. This considerably increased their monthly payment. I have explained above that this could have been avoided if Mr and Mrs D had read either the online application for the interest-only concession, or the documentation they were then sent when this was taken out, carefully and in full. However, I also think that this could have been avoided if Halifax's agent hadn't given Mr and Mrs D wrong information about the concession before they took it out.

In recognition of the fact that Mr and Mrs D do appear to have been steered down the road of taking out a six month interest-only concession on their mortgage by incorrect advice from Halifax's agent, I don't think Halifax should charge the SVR on this mortgage for January 2024.

I think it's likely that if Mr and Mrs D hadn't been told, quite wrongly, that they could extend their existing fixed rate by applying for the six month interest-only concession, that they would have ensured they had a new rate in place before the end of December 2023. So they would not have paid their old rate of 1.43% in January 2024 (that was never an option, despite what Mr and Mrs D were told). But they would also not have paid the much higher SVR, at 8.74%.

If Mr and Mrs D had secured a new rate before the end of December 2023, it may have been a little higher than the rate of 5.41% that they are on now. But I don't think the fair and reasonable thing to do now is to ask Halifax to put in place for the next few years, the rate that Mr and Mrs D could have secured in December 2023. Rather, I will ask Halifax to do what, in fact, it offered to do in the letter of 27 January, to charge Mr and Mrs D their new interest rate of 5.41% for January 2024, not the SVR.

I think asking Halifax to reduce the payment for one month only, is certainly fairer in these circumstances than charging the SVR during this period. I also think it is more straightforward for both sides than asking Halifax to rework Mr and Mrs D's mortgage entirely, on the basis of a rate that they may have secured in advance for the end of December 2023. After all, I cannot be sure now whether Mr and Mrs D would actually have chosen to go ahead with such a rate, rather than move their lending elsewhere.

And as Mr and Mrs D have said throughout that they are concerned about the increase in their mortgage balance, I will ask Halifax to use any refund that is due to Mr and Mrs D because of this change, to reduce that mortgage balance.

Because I do think that there was also an opportunity for Mr and Mrs D to avoid what went wrong here, I won't ask Halifax to pay compensation on top of this reworking of Mr and Mrs D's mortgage.

I think that would provide a fair and reasonable outcome in this case.

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.

Halifax said it agreed with the provisional decision, so if Mr and Mrs D accepted this too, then Halifax would recalculate the interest charged in January 2024, ensuring it was charged at 5.41% instead of the SVR of 8.74%, and the difference in the interest charged would be used to reduce the outstanding mortgage balance.

Mr and Mrs D replied to disagree. They said they were happy that a relevant phone recording had now been recovered, and that the recording confirmed they had a number of conversations with the same Halifax agent, before switching to an interest only deal. Mr and Mrs D said their decision to do that was based on the agent's explanation that they would retain their existing interest rate of 1.43% for a further six months while only paying the interest portion of the mortgage. They said if the agent had told them how this would really work, they wouldn't have done this. Mr and Mrs D said they had unfortunately not opened the letter which set out how the interest-only concession would work, because they thought Halifax had already set this out for them.

Mr and Mrs D said that if incorrect advice had been provided by a mortgage broker, they would expect to be reimbursed. So they thought that should still happen, even though the advice had come directly from Halifax.

Mr and Mrs D said that this had a significant impact on them, taking time away from their busy work schedules to resolve the problem, and causing considerable stress. So they said they felt a fair resolution would be for Halifax to honour the original rate of 1.43% for all of the period when they were charged the SVR. They said that is what would have happened if this advice had come from an independent broker.

I'm sorry to have to tell Mr and Mrs D that I just don't agree with the central tenet of their argument, which is that the redress in this case would have been substantially higher if the advice had come from an independent broker. It's not likely that the advice offered here would have been offered by a broker. But, hypothetically speaking, if it had been but the facts were otherwise the same, I would not have required the broker to simply pay back to Mr and Mrs D the difference between the interest rate of 1.43% that they were expecting to be charged during the interest-only concession and what they actually paid.

I should also say that I appreciate all the circumstances involved in rectifying what went wrong here, and in bringing their subsequent complaint to our service, would have an impact on Mr and Mrs D. But I also noted in my provisional decision that this problem could have been averted if Mr and Mrs D had either read the online application for the interest-only concession, or the correspondence that Halifax sent them. So, as I don't think that what went wrong here was solely Halifax's fault, I still don't think it would be fair and reasonable in this case for me to ask Halifax to pay additional compensation, on top of the redress I've set out below.

For those reasons, I haven't changed my mind in this case. I'll now make the decision I originally proposed.

My final decision

My final decision is that Bank of Scotland plc trading as Halifax must rework Mr and Mrs D's mortgage, so that in January 2024 they were charged their new fixed interest rate of 5.41%, not the Standard Variable Rate of 8.74%. Bank of Scotland plc trading as Halifax must apply any refund this reworking produces, to reduce the balance of Mr and Mrs D's mortgage.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D and Mrs D to accept or reject my decision before 25 December 2024.

Esther Absalom-Gough
Ombudsman