

Audit your mortgage accounts - and potentially claim a refund from your lender

By specialist property accountant Stephen Fay ACA

Mortgage lenders generally use automated systems to manage the vast numbers of accounts that they manage. While the systems themselves can generally be relied upon – there are some exceptions! The old saying that ‘garbage in, garbage out’ applies, as a human being still needs to set up the account and deal with certain items.

This article explains how to ‘audit’ your own mortgage statements and how to claim a refund from your lender if monies are owed to you.

Getting started

Incorrect mortgage account ‘penalty’ charges and account debits can amount to serious money if undetected. It is not unusual for portfolio landlords to find £1,000+ of charges once they review all accounts for all years. Also, lenders love adding charges to the outstanding balance as not only is the charge due, but potentially also interest on the charge for the next 20 years (they can make more on the interest on the charge, than the charge itself!).

The FSA requires lenders to provide mortgage account statements in a particular standard format. Most lenders work to 31 March each year – others to the calendar year or the tax year (5 April).

Gather together your mortgage statements for every year since each mortgage account was opened. If any statements are missing, ask the lender for a copy statement run off their system, rather than a duplicate which will usually be charged at around £25 each. Lenders must provide the information, but may charge for a ‘glossy’ statement – however a fee-free system copy is perfectly adequate.

Typical lender errors, mis-postings and refundable charges

The following items are typical of the kind of errors, mis-postings and refundable charges that may feature in a mortgage account:

1 Missed payment charges

These are usually around £25-35 and are computer-generated charges billed to the



mortgage account. Because they aren't payable with the direct debit, many landlords are unaware of the charge. These will be noted as “Returned DD” or similar, and can be challenged. These are NOT subject to the ongoing court case for current accounts, so charges can still be challenged (unlike current account charges which are now ‘frozen’ until the test case is resolved).

2 Insurance charges

If you don't take the lender's own insurance – which you don't need to – then lenders are of course perfectly entitled to ask for a copy of the insurance policy to check that their interest is protected (and, a court ruling stated that a ‘modest’ (taken to be £25 or less) charge was reasonable.

However, often the letter from the lender requesting the insurance details is sent to the rental property and so doesn't reach the landlord or, may go missing. Standard lender practice is to allow 14-28 days before taking out a ‘lender-protection-only’ policy and charging the premiums to the mortgage account. If you do have insurance in place, write to the lender to provide policy details and a refund of charges.

3 Incorrect debiting of arrangement fees, TT fees, & other set-up fees

When a mortgage account is set up initially, it is usually the case that arrangement fees are added to the loan, along with any other set-up fees. These are sometimes set at the wrong level if the lender's system is set up incorrectly.

4 Multiple mortgage accounts

Many lenders set up additional accounts for further advances and other additional borrowing facilities. Often, this results in a single direct debit being taken, that the lender then allocates to multiple accounts. Sometimes, this allocation goes wrong, and the result is an overpaid main account, and an unpaid ‘sub-account’. Lenders' systems are then programmed to charge the sub-account with penalty fees if a credit is not received. We have seen many instances of this, with the additional issue that credit agencies may be updated with the “missed” payments details.

5 Errors when interest rate changes are made

It's not unusual for the ‘revert rate’ – the rate following an initial fixed rate – to be set incorrectly by the lender system.

For example, we recently highlighted a case where the date that the fix ended was one month earlier (according to the mortgage offer) than the date that the lender changed the interest rate and direct debit. Across 20+ mortgages – which were all 5.99% fixes which then reverted to 2.5% – the overbilled interest was over £2,000!

Check your mortgage offers carefully – the headline rate, the end of the fixed rate period, the way the revert rate works (e.g. tracking Bank Rate or LIBOR, or the lender Standard Variable Rate) are all subject to error.

6 'Manual' account adjustments

Any entry to a mortgage account that isn't a standard fee is subject to error. We recently saw a case where the corrections to the initially incorrect charges had been charged (instead of credited) to the mortgage account! Checking mortgage statements carefully is usually a fairly quick exercise but can work out to be the best-paid use of your time you ever had!

Claiming back refundable charges and debits

Firstly, write to the lender to request that the errors and charges you have identified are refunded back to the mortgage account with a corresponding interest credit. State that you will begin County Court proceedings if such penalty charges are not refunded. This step is required so that you can satisfy the County Court that you have attempted to resolve the matter directly with the lender before starting any court action.

Almost always, a lender will respond that the charges applied are as per the mortgage terms and conditions, or that the charges are

valid (depending on the charge/ debit type). Obviously, at this stage you should carefully check your own records to determine if the lender explanation is correct.

If the charges are correct, and the lender refuses to refund the penalty charges, you then have two options (assuming you do want to pursue the matter):

1 Enter the Financial Ombudsman ('FOB') process

Not recommended as the FOB usually has a long backlog of cases. There is also every chance that the FOB will not be able to 'persuade' the lender of their errors.

2 Issue a County Court Claim

These days, using the County Court system is easy and cheap to do and, you don't need a solicitor. Interest is reclaimable at 8% per annum. Claims can be issued online using the following Government website:

<https://www.moneyclaim.gov.uk/web/mcol/welcome>

Follow the instructions carefully, and ensure you send the lender all the information you have to support your claim. We have seen many, many instances where the lender has either not attended the Court Hearing, or where an offer was made to settle immediately prior to entering the Court room.

Once the Court has issued the County Court Judgement (CCJ), the lender then has 14 days to send the funds to you, or to credit your mortgage account. If the lender still refuses, or does not act on the Judgement, you may appoint a bailiff to visit the lender. This happened recently at a Bank based in Canary Wharf, London. A bailiff visited and threatened to begin removing bank computers to pay the debt. Remember, the law of the land applies to both David and Goliath!

Summary

Many investors never review their mortgage statements, and so may be unaware of any errors made by the lender in administering their mortgage account. Although various charges are part of the terms and conditions of a mortgage, these must be 'reasonable' – a penalty may not be charged.

Often, spurious charges are made by lenders, and errors occur all too frequently, so spending some time checking all is in order, and rectifying any issues, can be time well spent.

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