

The complaint

Mrs N has complained about the service she received from The Royal Bank of Scotland Plc ("RBS") in respect of her mortgage account after her husband passed away in 2022.

What happened

Mrs N took this mortgage out in 2019 with Mr N. They borrowed around £80,000 on a repayment basis over a term of five years and three months. The interest rate was fixed at 2.53% until 31 October 2024. That gave a contractual payment due of around £1,350 a month.

In November 2022 RBS was notified that Mr N had passed away and a suspended payment arrangement was put on the account for three months to allow Mrs N time to review her finances. She said she had some savings but had care home bills and funeral expenses to pay, and she had considered selling should she need to. The arrangement meant that interest would continue to accumulate in that time, but no payments were required, and her credit file wouldn't be affected.

In March 2023 Mrs N spoke to RBS about longer term options as she said she couldn't afford to make the full monthly payments. There were discussions about various options, such as a temporary or permanent switch to interest only and a term extension. Mrs N said she would have to sell the property but didn't want to do so immediately, so she asked if she could transfer onto an interest only basis until the end of the term. She said she could potentially afford up to around £500 a month and that someone owed her £25,000 so she would be getting that back.

It was agreed that a further suspended payment arrangement of one month would be put in place for March 2023, and that the April payment due date would be pushed back to 30 April to give Mrs N more time to look at her options.

In mid-April 2023 Mrs N said that she was part way through remortgaging to another lender and asked what would happen if that didn't complete by the end of the month. RBS said that if no payment was made then it would be reported as arrears on her credit file, but a part payment would be enough to keep the arrears below one month and that would mean the account would be reported as up to date.

At the end of April Mrs N made a part payment of around £580 to take her balance to £34,000 at that time as she said she had a remortgage in place for £34,000 which was due to complete in a few weeks. RBS said that daily interest would accrue so the balance wouldn't remain at £34,000, and Mrs N said she would pay the extra at the time the remortgage completes.

The remortgage went through and the RBS mortgage was redeemed. I understand RBS waived the early repayment charge that was due on the mortgage upon redemption.

In the meantime, Mrs N had raised a complaint with RBS and referred the matter to our service as she didn't agree with RBS's response. She said when she referred the complaint to us:

"They said they might have been able to come up with something had I agreed to sell the property within 6 months which I am not ready to do either emotionally or practically - there's no guarantee that a property would sell in that time anyway. My complaint is that RBS were unable/unwilling to offer any practical solution whatsoever despite, my suggestions, forcing me to contact a broker and look around for another mortgage. This has caused me more stress and anxiety at a difficult time in my life as well as the additional financial costs that will now be incurred - RBS early repayment charge, arrangement fees for another mortgage and the increased interest being accrued whilst the discussions with RBS have been going on."

Our Investigator didn't uphold the complaint. She said that the timeframe Mrs N was working towards was too long for a temporary interest only concession, and there was no guarantee that even after that period the property would have been sold, and the mortgage repaid. If the property hadn't sold by the end of the interest only concession, then the monthly payments would be even higher when the account switched back to repayment, which Mrs N couldn't afford. Mrs N didn't qualify for a permanent switch to interest only as she didn't meet the lending criteria, and a term extension wasn't possible for the same reason.

Mrs N didn't agree with our Investigator and asked that the case be passed to an Ombudsman to decide.

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 hope Mrs N will accept my condolences for her loss. I've a great deal of sympathy for the position she was in, losing her husband and then dealing with the estate and the worry about her home and finances. Things can't have been easy for her.

I note what Mrs N said about what she perceived to be the low risk to RBS of transferring the mortgage onto interest only due to the low loan-to-value ratio ("LTV"). She's also said she was owed £25,000 that, if necessary, the person would repay so that could be used.

In terms of the LTV I understand why Mrs N feels the risk to RBS was low. But RBS – as a regulated mortgage lender – doesn't just think about the risk to it. It also has to think about the risk to the borrower.

Under the Mortgages and Home Finance: Conduct of Business Sourcebook ("MCOB") a request to change the mortgage from capital repayment to interest only is considered to be a change that is material to affordability. MCOB contains rules that lenders must adhere to for any lending on (including switches to) an interest only basis.

RBS is entitled to set its own lending criteria to meet the MCOB rules. RBS's lending criteria for a permanent switch to interest only requires (amongst others);

- a borrower to have income of not less than £75,000,
- for the term of the mortgage not to go beyond the borrower's 70th birthday, and
- that the borrower is not planning to repay the mortgage within three years.

Mrs N didn't meet any of those as she said she had an income of around £30,500, she would be 75 years old at the end of the term, and she said her strategy to repay the mortgage was to sell the property in less than two years' time.

RBS could look at a temporary interest only concession, but the issue here was that at the end of a temporary interest only concession the mortgage would revert to repayment and that would lead to the monthly payments increasing even further beyond the point Mrs N had already said she couldn't afford.

Mrs N has said that if the temporary concession ran until the end of the term then she'd sell the property and redeem the mortgage, so would never need to move back to repayment.

Mrs N couldn't afford the monthly payments on a repayment basis, and there was no guarantee she would be able to sell the house when she needed to do so. It may be the house would go on the market and not sell. It could be something else happened, such as Mrs N suffering from ill health, other personal issues or she still wasn't ready - emotionally or practically - that meant she wasn't in a position to sell the house. It could even be that at the end of the term Mrs N changed her mind entirely and no longer wanted to sell the property; based on the conversations she had with RBS it doesn't appear it was something she was certain about.

If the property didn't sell when intended then the mortgage would move back to repayment and RBS knew that wouldn't be affordable. Temporary interest only concessions can be used successfully for a period of, say, around six months to allow a property that is already on the market to sell. But the property wasn't on the market, and Mrs N didn't intend to put it on the market in the next month or so. I can understand RBS's concerns about basing a temporary interest only concession on a repayment plan that was Mrs N would do something in a year or so that she wasn't willing to do then, or in the next month or so.

I can also understand why RBS was unable to take the potential repayment of the £25,000 from a friend or family member into account as there was no guarantee that Mrs N would receive that sum when needed. Whilst no-one wants to think ill of a friend or family member, things can happen that mean debts like these can't – or won't – be repaid when requested. For that reason, I don't think RBS acted unfairly in discounting that from its considerations.

Having considered everything very carefully, I'm satisfied RBS didn't do anything wrong in not considering a permanent switch to interest only, or a temporary interest only concession, as a reasonable option based on the circumstances put forward by Mrs N.

Other forbearance options that could have been looked at would have been a term extension, a reduced payment arrangement or a change to a lower interest rate.

The mortgage already ran until Mrs N would be 75 years old, which is the maximum age RBS allowed. Even if a further five years could have been agreed, the monthly repayment would still have been higher than Mrs N said was affordable to her. So, a term extension wasn't an option that could be considered.

Mrs N's mortgage was on a fixed interest rate of 2.53% until 31 October 2024. At the start of

March 2023 the Bank of England base rate was at 4.00% and the interest rates that mortgage lenders were offering were substantially higher than that. Mrs N has said she obtained a rate of 5.60% elsewhere. On that basis I don't think RBS did anything wrong in not offering Mrs N a lower rate, especially as even a 0% interest rate would leave the monthly repayments higher than Mrs N said she could afford.

RBS was willing to explore reduced payment arrangements with Mrs N but she's said she didn't want her credit file impacted. That's understandable, but it doesn't mean RBS was wrong to explore those options with Mrs N. Fortuitously Mrs N had another option as she was able to remortgage elsewhere, but for another customer a reduced payment arrangement (that impacts their credit file) might be the difference between their property being repossessed or not.

I understand how difficult and frustrating this must have been for Mrs N. But I don't think that RBS treated her unfairly or that it acted unreasonably throughout this period. It didn't agree to what she wanted, but I've explained above why that wasn't unreasonable.

My final decision

For the reasons I've given, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs N to accept or reject my decision before 19 February 2024.

Julia Meadows
Ombudsman