

The complaint

Mrs H complains that Santander UK Plc sold her an interest only mortgage when she did not have the means to repay it at the end of the term. She also complains that it has treated her unfairly by refusing to extend the term of the mortgage by five years.

What happened

In 2004, Mrs H and her husband took out an interest only mortgage with Santander over a term of 15 years. They received advice from a third party mortgage broker.

In 2005, Mr and Mrs H took out additional borrowing of £6,000 on an interest only basis over a term of 14 years and 7 months.

In 2006 Mr and Mrs H took out additional borrowing of £9,000 on a repayment basis over a term of 14 years.

In 2007, Mr and Mrs H took out additional borrowing of £10,000 on an interest only basis over a term of 14 years.

In 2020, Mr H passed away suddenly. Mrs H said it was only then that she became aware that the mortgage was on an interest only basis and there was nothing in place to repay the mortgage. She considers that the mortgage was mis-sold – she said she never would have agreed to it if she knew there was no plan for it to be repaid. She said she was never given any paperwork relating to the mortgage.

Mrs H also complains that Santander won't agree to extend the term of the mortgage by five years so that either her daughter will buy the property or so that she could arrange an equity release mortgage to repay it.

I issued a decision saying the complaint about the sale of the mortgages was brought outside our time limits. But we could consider the complaint about whether Santander treated Mrs H fairly once the term of the mortgage had ended and in considering her request for a term extension. The investigator thought that Santander should pay Mrs H £300 for not keeping her fully updated on what was happening and any confusion regarding a home visit. But she did not consider that it had acted unfairly in not agreeing a term extension.

Santander accepted what the investigator said. Mrs H did not. She made a number of points, including:

- It was only after Mr H passed away that Mrs H found out the mortgage was not being paid as the direct debit had been cancelled when he died. She cleared the arrears and then made payments. At no point after settling the initial arrears was the mortgage in arrears.
- Mrs H had a viable five-year plan to repay the mortgage. Either her daughter would buy the property or she would take an equity release mortgage.

- Had Santander agreed to extend the term on interest only she could have fixed payments and avoided the increase in payments when interest rates went up.
- The income and expenditure showed that Mrs H had a surplus of around £300 per month after all bills and the mortgage were paid. Even though the mortgage payments had doubled, she still paid what was due with no arrears.
- Mrs H had options to pay off the mortgage in the future – but equity release would not raise enough to clear the mortgage in full because of her age. But she was left with no choice but to borrow from a friend to make up the shortfall.
- Santander took Mrs H to court – that affected her mental health.

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.

When Mrs H took out the mortgage and additional borrowing with Santander she agreed to repay it by the dates set out in the mortgage offers. The starting point is that is fair and reasonable for a lender to look for the borrower to repay the borrowing on the agreed date.

Lenders also have a duty to treat borrowers fairly – they should understand that circumstances can change and that borrowers' plans to repay the mortgage might not work out as planned. So when the term of the mortgage ended, Santander ought to have given Mrs H time to consider her options and explored if there was anything it could do to help. Under the relevant rules, Santander could waive affordability rules if the changes Mrs H wanted were in her best interests. So I'd expect Santander to look at things more widely than just applying its usual affordability criteria.

The term of the main mortgage ended in late 2019. I can see that Mr H had discussions with Santander from 2019 and throughout 2020. Santander said that a term extension on interest only was not possible because of Mr H's age and that a term extension on a repayment basis was not affordable. It agreed to give Mr and Mrs H some breathing space while they considered their options, including taking an equity release mortgage. I think that was fair.

The mortgage later fell into arrears. I accept that Mrs H had valid reasons for that and it wouldn't be fair or reasonable for Santander to take arrears into account in deciding whether it should offer Mrs H forbearance or extend the term of the mortgage. Ultimately, I don't think that made any real difference.

It isn't in dispute that switching to a repayment mortgage wasn't affordable. Mrs H wanted to continue on interest only for five years and then repay the mortgage with an equity release mortgage, as the amount she could borrow would have increased by then because of her age. Alternatively her daughter would buy the property from her.

After carefully thinking about what Mrs H proposed, I don't consider a reasonable lender acting fairly would conclude that extending the term was in Mrs H's best interests. While there was evidence that the payments were affordable and that would allow Mrs H and her son to remain in their home, there were also a number of uncertainties in her plan and things that might not be in her interests.

At the time in question it was only Mrs H's age that meant she could not raise enough from an equity release mortgage to repay the mortgage. But we don't know what would happen in

five years' time. There was still a possibility that equity release lenders would not lend Mrs H as much as she needed because of changes in house prices, interest rates or their appetite for lending. So that was not guaranteed.

There was also likely to be a number of factors that would affect Mrs H's daughter's ability to buy the property from Mrs H. I don't think it was unreasonable for a lender not to accept that as a proposal to repay the debt. So Mrs H did not have a credible plan to repay the mortgage at the end of any extended term – there was a significant possibility she would find herself in a similar situation at the end of the extended term. And she would also have to pay more interest over the extended term.

I don't consider it was unreasonable for Santander to reject Mrs H's proposal to extend the term. Looking at it from a neutral perspective, I think it is difficult to argue that it would have been in her best interests overall. In view of that, and because of the length of time since the mortgage term ended, it was reasonable for Santander to begin legal action. I was sorry to hear the impact on Mrs H of that – it must have been incredibly stressful and worrying. But Santander was entitled to take that action.

In saying that, I agree that Santander could have done more to keep Mrs H informed of what was happening and it did not send an agent to speak to her as promised. I consider that likely added to – but was not the main source of – the stress, anxiety and upset Mrs H experienced. I think the investigator's proposed amount of £300 is fair in the circumstances to reflect that.

My final decision

My final decision is that Santander UK Plc should pay Mrs H £300.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 14 May 2024.

Ken Rose
Ombudsman