DRN-4782607

The complaint

Mr H complains that Bank of Scotland plc (trading as Halifax) was unfair when it didn't agree to extend the term of his interest only mortgage.

What happened

Mr H has had an interest only mortgage with Halifax since 2006. The term expired in early 2024 with an unpaid balance.

Mr H says he'd planned to repay his mortgage by taking out an equity release product. However, the terms on which equity release products were available became less attractive due to interest rate rises. Mr H asked Halifax for a two-year term extension with a new interest rate product. He said this would allow him time to explore his options and potentially obtain an equity release mortgage on better terms.

Halifax didn't agree to a term extension, saying Mr H didn't meet affordability criteria. It said it would allow a grace period for Mr H time to find a suitable alternative.

Our investigator said Halifax hadn't been unfair. He said Mr H had the means to repay the mortgage. Our investigator said Halifax had reviewed what support it could offer Mr H and given him time to look into his options. He said Halifax should continue to review the position and give Mr H time to make suitable arrangements to repay the balance owed.

Mr H didn't agree and asked that an ombudsman re-consider the matter.

Mr H said he wanted a definite timescale for the extension – he said 18 to 24 months was reasonable – and a new interest rate product. He said he'd made a lump sum payment to reduce the balance and could reduce this further with a tax-free pension lump sum. Mr H says it's unfair that Halifax didn't take his pension income into account when assessing affordability. Mr H's financial adviser also sent an email, which said Mr H has options which include re-mortgaging, downsizing and equity release.

Mr H recently told us he'd repaid the mortgage using savings and a loan/mortgage.

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 wrote to Mr H in 2019, 2021, 2023 and 2024, to remind him that his mortgage term was due to expire and to ask him about his plans to repay it. Mr H says he'd intended to repay the balance using equity release and this had become less attractive due to increases in interest rates from late 2022. He also needed to add his wife to the title deeds.

Mr H asked for more time to repay the mortgage. He didn't want an informal extension. He wanted a two-year term extension with a new interest rate product. Mr H told Halifax he wouldn't be able to demonstrate affordability as he was due to retire imminently and had been running down his business. He said he did have equity in the property and a state pension and a private pension fund.

Halifax said it couldn't offer a term extension as this wasn't affordable. I can understand Mr H's frustration. But rules on mortgage regulation require lenders to carry out affordability checks before agreeing to offer or vary a mortgage. There are some limited exceptions to this, which could allow Halifax to offer a mortgage if this was in Mr H's best interests.

Halifax said Mr H had options to repay the mortgage balance. This included savings, a pension fund and equity release (or some combination of these). It said Mr H's options would be the same at the end of any extension.

Halifax didn't offer a term extension. It said it could offer grace periods while Mr H took steps to repay the mortgage.

When Mr H took out the mortgage he agreed to repay it. He had options to do so when the term expired. He wanted more time in the hope he'd get better terms for an equity release mortgage. Mr H's financial adviser confirmed options were available, and that an improvement in market conditions would make it easier to negotiate the best outcome.

I don't think it was clearly in Mr H's best interests to extend the term of his mortgage. Mr H might not have been in a better position at the end of a term extension. There's no guarantee that interest rates would fall or that equity release products would be available to Mr H on more attractive terms. Interest rates could have increased. Halifax said based on the income and expenditure information Mr H provided, he'd have to use savings to help meet his monthly interest payments. And, as I said, Mr H had options to repay the mortgage. I don't think, in the circumstances, it was unfair for Halifax to decline Mr H's request for a term extension.

Mr H has now repaid the mortgage. I appreciate that he still feels aggrieved at how Halifax handled his situation. But I don't think Halifax treated him unfairly. It follows that I don't think Halifax needs to take any further action in relation to this complaint.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 7 August 2024.

Ruth Stevenson
Ombudsman