DRN-4858035

The complaint

Mr and Mrs N's complaint is about their mortgage with Hodge Lifetime, a trading name of Julian Hodge Bank Limited (referred to here as "Hodge").

Mr N, who has dealt with the complaint throughout, is unhappy that the mortgage term is due to expire in 2025, as he believes Hodge has extended it to 2027. Mr N says he was given conflicting and confusing information about the term end date by Hodge.

Mr N also says he was told he wasn't able to apply for a term extension on the mortgage.

Finally, Mr N is upset that Hodge's "*Managing Director"* (CEO) hasn't personally dealt with his complaint.

To settle the complaint, Mr N wants Hodge to extend the mortgage term end date to 2027.

What happened

I do not need to set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat the details here.

In addition, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs N being identified. So for these reasons, I will instead concentrate on giving a brief summary of the complaint, followed by the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

In 2020 Mr and Mrs N took out an interest-only mortgage with Hodge. They borrowed £215,995 over a term of five years. Attached to the mortgage was an interest rate product, a fixed rate of 2.99% for two years. Upon expiry of the interest rate product, the mortgage would revert to Hodge's Standard Variable Rate (SVR).

In July 2022 Mr and Mrs N entered into a new interest rate product to take effect on expiry of their original interest rate product. The product switch offer shows that the remaining duration of the loan at the time was three years one month. The product Mr and Mrs N selected was a two-year fixed rate of 3.25%, at the end of which the mortgage interest rate would revert to Hodge's SVR.

As a result of an administrative error, Mr and Mrs N were sent an incorrect interest rate switch offer letter that wrongly confirmed an interest rate product of 3.90% for five years (so a product expiring in 2027). Hodge's internal notes show that Mr N contacted Hodge about this on 21 July 2022.

The notes say:

> *"Mr advised it is not the original agreement he signed …"*

"… he has rec'd a letter dated 15/7/22, this does not match what they signed up for and he does not know why this happened…

After a complaint was raised by Mr N, Hodge acknowledged its error in sending out a letter about an incorrect interest rate product. The complaint was rectified by Hodge sending out the correct product switch letter. Unfortunately, neither Hodge nor Mr and Mrs N have retained a copy of the final response letter sent by Hodge in 2022.

In September 2023 Mr and Mrs N were sent a letter by Hodge reminding them that the mortgage term was due to end in 2025.

There followed a number of telephone conversations between Mr N and Hodge about the mortgage.

Mr N acknowledged the mortgage was taken out over a five-year term, and so was due to expire in 2025. Mr N asked if a term extension would be possible as he wanted to continue working and to see how the property market changes. Hodge said it could consider informal term extensions if there was proof of being able to redeem after the term expiry date, but not long-term extensions.

During one call the agent Mr N spoke to read out the details of the incorrect 3.90% five-year product switch letter that had an end date to the interest rate product of 2027. As a result, Mr N believes that Hodge confirmed during that call that the mortgage term had also been extended to 2027.

Hodge confirmed that the mortgage end date was 2025. Mr N complained, but only wanted to speak to the CEO. Mr N told Hodge's agents that he'd sent numerous emails to the CEO but hadn't had a response from him.

In its final response letter, Hodge confirmed the mortgage end date was 2025. Dissatisfied with this response, Mr and Mrs N raised a complaint with our service. They would like Hodge to *"honour their agreement of the loan to end at 2027"*.

An Investigator looked at what had happened. Having done so, she was satisfied that Hodge had not extended the mortgage term to 2027. She explained to Mr and Mrs N that Hodge's system didn't have a note to say that the letter about the 3.90% five-year product switch wasn't the correct product. Therefore when the agent read this out to Mr N, she wasn't aware that this wasn't the actual interest rate product Mr and Mrs N had taken out.

The Investigator noted that Hodge has a procedure for term extensions, and thought Mr N should have been directed towards that process. The Investigator asked Hodge to pay compensation of £200 for any distress and inconvenience, and to provide Mr and Mrs N with the information they needed to start a term extension application.

Finally, the Investigator didn't think the complaint about the CEO not dealing with the complaint should be upheld. She was satisfied that handling customer complaints wasn't part of his role.

Hodge accepted the Investigator's findings, but Mr and Mrs N did not. Mr N has made some further points, the most relevant of which I summarise below:

- He considers the £200 to be an insult, and works in Hodge's favour, as this means it *"could just adjust the charges of any extension they offer"*.

- Hodge has sent them *“a loan extension with cost of £1,100”* which they believe is *“illegal”*.

- The Investigator is biased.

- They had planned to sell the property in 2026 to be able to pay off the mortgage.

- Hodge has accepted it made a mistake, but he and Mrs N are struggling to understand why they have to suffer as a result.

- They feel completely let down.

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’ll start with some general observations. We’re not the regulator of financial businesses, and we don’t “police” their internal processes and systems, or how they operate generally; that’s the role of the Financial Conduct Authority (FCA). We deal with individual disputes between businesses and their customers.

We’re impartial, and we don’t take either side’s instructions on how we investigate a complaint. We conduct our investigations and reach our conclusions without interference from anyone else, but in doing so, we have to work within the rules of the Financial Ombudsman Service and the remit those rules give us.

We have no power to sanction, punish or fine businesses – that’s also the role of the FCA. Nor do we have the authority to determine whether or not a business has breached legislation, broken the law, or is in breach of contract, and we don’t award damages – all of those matters fall within the remit of the courts.

Term end date: In looking at this case, I take into account that a mortgage loan and a mortgage product are two different things. A loan is the underlying transaction in which money is lent; the product is the initial terms that sit on top.

For example, an agreement to borrow a specified amount repayable over a specified repayment period at the lender’s interest rate is a mortgage loan; an agreement that for an initial period, a fixed interest rate rather than the standard rate will apply is a product that sits on top of the loan.

In this case, the mortgage offer shows that the loan was £215,995, repayable at the end of the five-year term. An initial fixed interest rate product was attached, and on expiry of this, Mr and Mrs H selected another two-year fixed rate.

The issue that arose is that, in 2022, Hodge mistakenly sent out the wrong letter which referred to a five-year fixed rate. Of course, a five-year fixed rate could never have applied to this mortgage loan, because it’s not possible for an interest rate product to run beyond the end date of the mortgage, in this case 2025.

I'm satisfied that, after Mr N raised this with Hodge in 2022, the error was rectified and Hodge confirmed that the interest rate product Mr and Mrs N had taken out was a two-year fixed rate which would end in 2024.

I'm satisfied from the call recordings I've listened to that Mr N acknowledged the mortgage loan had been taken out over a five-year term.

However, during one call on 26 September 2023, the agent mistakenly read out the details from the "wrong" letter that had been sent referring to the five-year fixed rate ending in 2027, and Mr N appears to have seized on this as confirmation that Hodge had extended the mortgage term. Hodge has acknowledged that there should have been a note on its system to say that this letter had been sent by mistake in 2022. But I'm also satisfied that during that call Mr N agreed his mortgage offer was for a five-year term.

I'm satisfied that Hodge hasn't extended the mortgage term to 2027. A mistake was made when the call handler read out the incorrect letter which referred to the mortgage interest rate product (*not* the mortgage loan term) ending in 2027. As I said above, the mortgage loan term and the mortgage interest rate product are two separate things.

Where a mistake has been made, we try, wherever possible, to put the consumer back in the position they'd have been in if the mistake hadn't been made. If the mistake hadn't been made, Mr N wouldn't have made an incorrect assumption that his mortgage term end date had been extended to 2027.

Hodge is required to provide consumers with information that is accurate and not misleading, but mistakes still do happen. So what I have to consider is whether it was reasonable, given what had gone before, for Mr N to have made an assumption that a mortgage term extension had been granted.

As I said above, I'm not sure how reasonable an assumption that was, given that Mr N had already acknowledged during this and other calls that his mortgage term end date was 2025. But I'm also satisfied that Hodge corrected the error quickly, on 27 September 2023, and in its final response letter dated 25 October 2023. So whilst Mr N says that he and Mrs N had based their retirement planning around the mortgage ending in 2027, I'm not persuaded by this argument, given the short period of time involved before any ambiguity about their awareness of the actual position was removed..

I'm satisfied, therefore, that the mortgage term end date is 31 August 2025, as specified in the mortgage offer.

Term extension: I think Hodge could have been clearer when discussing extending the term with Mr N. I think he and Hodge were at cross-purposes, because Mr N was left with the impression that a term extension wouldn't be possible. What Hodge actually meant was that it wasn't able to allow open-ended extensions by way of forbearance after a mortgage term had expired.

Hodge does have a term extension process that Mr and Mrs N can apply for. I note that Hodge forwarded the forms to the Investigator and these have been passed on to Mr and Mrs N, along with information about how they need to apply for this and whether or not they'll need to do so via a financial adviser.

A term extension is considered to be a material change to a mortgage contract, and so Hodge will be entitled to assess this against its lending criteria. It's not for me to say whether or not Hodge should agree to any term extension; that's a matter for its own commercial judgement.

Most lenders will generally allow a grace period after a mortgage term has expired to enable the borrower to put their repayment strategy in place. Here I note that Mr and Mrs N have said they plan on selling the property in 2026. This brings me onto my next point, which is in relation to an issue Mr N raised in response to the Investigator's findings.

New interest rate product: Mr N has sent us details of what he claims to be an *"offer"* of a new interest rate product, but which is, in fact, a system-generated document showing what potential products might be available when the current interest rate product expires in August 2024, and containing an application form on an execution-only basis. There is nothing *"illegal"* about this, as Mr N suggests. It is standard documentation that all lenders send out when an existing interest rate product is reaching its expiry date.

Once the existing product expires, the mortgage interest rate will revert to SVR. If Mr and Mrs N want to take out a new interest rate product, they will need a term extension because the shortest interest rate product offered by Hodge is a two-year fixed rate. The documentation makes it quite clear that the minimum mortgage term must be two years in order to take out a new two-year interest rate product, or five years for a five-year interest rate product.

As I said above, the decision on whether or not a term extension is granted lies with Hodge. If a term extension is not agreed, and Mr and Mrs N aren't able to move onto a new fixed interest rate product, their monthly repayments will increase, as Hodge's SVR is currently 8.85%. I am explaining this because it would be remiss of me if I didn't make Mr and Mrs N aware of the position when their current interest rate product expires at the end of this month.

Complaint-handling: Mr N is upset that Hodge's CEO didn't respond personally to his emails or handle the complaint himself. It's up to Hodge to run its business as it sees fit, delegating complaint-handling to dedicated departments. I don't have any power to tell Hodge who should deal with complaints, and Hodge isn't required to accede to the demands of customers who want to deal only with specific staff. I'm satisfied that Hodge has handled the complaint in line with its regulatory obligations.

Conclusion

For the reasons given above, I'm satisfied that the mortgage term end date is as stated in the mortgage offer, and that it ends in August 2025. If Mr and Mrs N want a term extension, they can apply for one, and if they do, the application should be assessed in accordance with Hodge's lending criteria.

When the mortgage interest rate product expires at the end of August 2024, the mortgage will revert to SVR. If Mr and Mrs N are successful in their application for a term extension, they can apply for a new fixed interest rate product, provided they have at least two years remaining on the mortgage term.

Putting things right

I'm satisfied that Hodge could have been clearer about the process to apply for a term extension. I can understand why Mr N felt he'd been told he couldn't have a term extension. For the distress and inconvenience caused to Mr and Mrs N, I'm satisfied that a payment of £200 is fair, reasonable and proportionate. The forms to apply for a term extension have already been provided to Mr and Mrs N, and so it is up to them to progress this if they wish to do so.

My final decision

My final decision is that I partly uphold this complaint. To settle the complaint I direct Julian Hodge Bank Limited to pay Mr and Mrs N £200 compensation. I make no other order or award.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any discussion about it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs N to accept or reject my decision before 10 September 2024.

Jan O'Leary
Ombudsman