DRN-5016998

The complaint

Mr K and Miss C's complaint is about a mortgage they have with Bank of Scotland plc trading as Halifax. Due to changes in their financial circumstances they want to convert their mortgage to an interest-only basis, but Halifax will not agree to them doing so.

In settlement of the complaint Mr K and Miss C would like Halifax to convert the mortgage to an interest-only basis until at least the end of their current fixed interest rate product in the summer of 2025.

What happened

Mr K and Miss C took out their mortgage with Halifax in 2007 on a repayment basis over 28 years. Subsequently they took further borrowing in 2017 and the term was extended to end in 2040.

Mr K and Miss C took out a new interest rate product in June 2023, which involved an increase in the interest rate they were paying on their mortgage and an increase in the monthly payments of around £400. Their income had reduced following the Covid-19 pandemic, and so they found making the new monthly payments difficult. Mr K has said he took on a second job to cover the increased costs, but this was not sustainable. In December 2023 they converted their mortgage to an interest-only basis for a temporary period of six months in line with the government agreement under the Mortgage Charter.

When the end of the temporary conversion was approaching, Mr K and Miss C asked Halifax to convert their mortgage to an interest-only basis permanently. Halifax told him that to do so they would need an acceptable repayment vehicle and that they would need a joint annual income of £75,000. The request was declined as they did not meet Halifax's criteria for interest-only lending. Halifax offered to consider if it could offer Mr K and Miss C forbearance options, but they declined as such measures would affect their credit files.

Mr K and Miss C were not happy with Halifax's position and said they didn't feel that they were being treated as individuals. They said they needed something to help them for the period until their current fixed interest rate ended and, hopefully, the economy and their income had improved.

Halifax responded to the complaint in a letter of 14 May 2024. It confirmed that in order to convert a mortgage to an interest-only basis, the borrower had to meet its lending criteria. Mr K and Miss C didn't meet those criteria in that they did not have an acceptable repayment vehicle, nor did they meet the minimum income threshold.

Mr K and Miss C were not satisfied with Halifax's response and referred their complaint to this Service. One of our Investigators considered the complaint, but he didn't recommend that it be upheld.

Mr K and Miss C didn't accept the Investigator's conclusions. They said that they accepted that they had been helped during the Covid-19 pandemic. However, Halifax failed to see that customers like them needed longer-term help and more than six months' help here and there with a one-size-fits all policy aligned to higher earners. They said they didn't think Halifax had treated them fairly, as they were required to do by the Regulator. They also confirmed that they could not move home at this time, as they would not be able to afford a suitable property for their family. As such, they have no alternative but to receive assistance from Halifax.

As the Investigator didn't change his mind following considering Mr K and Miss C's further comments, it was decided the complaint should be referred to an Ombudsman for consideration.

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.

Initially, I would explain that the Mortgages and Home Finance: Conduct of Business Sourcebook (known as MCOB) sets out at MCOB 13 options to help borrowers who are struggling with their mortgage repayments. For long-term difficulties, such as Mr K and Miss C's, a lender can look at things such as transferring a mortgage from capital and interest repayment to interest-only, deferring interest for a period of time or capitalisation of arrears. Balanced against that is the lender's obligation to ensure that any arrangement is affordable and sustainable. The requirement for a lender to try to help a borrower doesn't mean that a consumer should be given whatever they ask for, but rather the lender needs to determine if it can put forward any proposals that will actually help the consumer and not just postpone the inevitable if the mortgage isn't and won't be affordable going forward.

Mr K and Miss C have highlighted that the interest-only mortgage would mean lower payments for them and would ensure that the mortgage was affordable for the remaining term of their interest rate product. I understand the point they are making, however, I must also consider that Mr K and Miss C have asked to change to interest-only to reduce their payments because their income has dropped noticeably over recent years and due to the effect of the cost of living crisis. While Mr K and Miss C have said they hope they will be able to convert the mortgage back to repayment at the end of their current interest rate product, this hope is based on the economy improving, with an associated recovery of their income, and interest rates reducing. However, none of that is guaranteed to happen and so Halifax needs to consider the situation overall, as it is now, to determine if what Mr K and Miss C want is appropriate, sustainable, and in their best interests.

In addition, when a permanent change from repayment to interest-only is considered, a lender is required by the Regulator to check whether the borrowers have a suitable repayment strategy for repaying the capital at the end of the term. Mr K and Miss C put forward that if they would sell the property. Selling a property is not generally considered a suitable repayment vehicle as it means the borrower making themselves homeless.

I would also explain that a lender is entitled to set its own lending criteria based on the risks it is willing to accept, which will ultimately lead to what types of repayment vehicle it considers acceptable and in setting affordability criteria when considering lending decisions. MCOB says that Halifax should have, and apply, a policy to help it assess affordability. Different lenders can have different policies, and some are more cautious in what they accept than others. This isn't unfair and allows for competition in the market. Halifax was entitled to set a minimum income requirement for interest-only mortgages in order to ensure borrowers have capacity to provide for a repayment vehicle.

Also, Halifax was entitled to take the risks of Mr K and Miss C's request to change to an interest-only basis into account in assessing whether to grant their request. Although they were existing customers, they effectively wanted a new mortgage on new terms, and it wasn’t unreasonable for Halifax to have applied its lending policy to their request.

It is unfortunate for Mr K and Miss C that this meant they couldn’t do what they wanted to with their mortgage, but I can’t find that Halifax was wrong to assess their situation in the same way it would any other customer with similar circumstances. In considering whether the new mortgage arrangement they wanted was right for them, and how they would repay the capital if it was granted, I am satisfied that Halifax took appropriate account of its obligations and didn’t treat them unfairly.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr K and Miss C to accept or reject my decision before 31 December 2024.

Derry Baxter
Ombudsman