

The complaint

Mr and Mrs N complain that National Westminster Bank Plc (“NatWest”) has treated them unfairly. They say that it refused to convert their mortgage from capital repayment to interest-only or offer any other support and forbearance during their period of financial difficulty.

What happened

Mr and Mrs N have been mortgage customers of NatWest since 2020. Their mortgage is repayable on capital and interest payment terms.

In July 2023 Mr and Mrs N asked NatWest for a temporary switch to interest only for six months under the Mortgage Charter.

This is a voluntary commitment by most major mortgage lenders to help borrowers who may be experiencing financial difficulty. It came into effect in June 2023 and allows borrowers who are struggling to pay their mortgage to switch temporarily to interest-only for six months – without any impact to their credit file. After that, their mortgage repayments will revert to capital repayment, and the payments will increase to take into account the unpaid capital over the previous six months.

When the temporary interest only period ended in early 2024, Mr and Mrs N asked NatWest for an extension. They wanted to switch their mortgage to interest only on a more permanent basis – through a contractual change to their mortgage terms. Mr and Mrs N met the basic income criteria to qualify for this, so an appointment was booked with a mortgage advisor to carry out a full assessment of their circumstances. Because Mr and Mrs N didn’t meet the full affordability criteria, NatWest declined the request.

Mr and Mrs N asked if NatWest could at least temporarily switch their mortgage to interest only for a few months to allow time for Mr N to come out of retirement and for their household income to increase – which would in turn make their mortgage more affordable.

NatWest said that a temporary switch to interest only could be considered as a forbearance measure. But that would result in arranged arrears that would likely be reflected on Mr and Mrs N’s credit files. Mr and Mrs N were clear that they didn’t want to consider any forbearance that would impact their credit scores, so a transfer to the relevant specialist team – referred to by NatWest as the Financial Assist team – didn’t take place.

Mr and Mrs N didn’t think they’d been treated fairly so they complained. NatWest didn’t uphold the complaint, it explained why it was satisfied that Mr and Mrs N’s application for a permanent switch to interest only had been fairly considered in line with its policy. NatWest also explained that it could look to offer support through its Financial Assist team, but any forbearance measures would likely have an impact on Mr and Mrs N’s credit scores which they did not want.

Unhappy with NatWest’s response, Mr and Mrs N came to our service in May 2024 and asked us to look into things.

Mr and Mrs N subsequently couldn't afford to maintain their mortgage payments and their account fell into arrears. In June 2024 Mrs N called NatWest for help because the mortgage had become unaffordable.

Mrs N said that Mr N had put his other property on the market, and they were waiting for it to sell, to help free up some funds to repay their arrears and maintain their mortgage payments moving forward. Ideally, they were looking for a temporary switch to interest only, or alternatively, they were happy to consider a three-month payment arrangement by which they could pay up to £1,000 a month.

The agent carried out a check of Mr and Mrs N's income and expenditure to understand their current circumstances. The agent called through to the Financial Assist team to arrange a potential referral. The Financial Assist team said that because Mr and Mrs N were showing as having a deficit each month it couldn't agree to a formal payment arrangement because the payments wouldn't be affordable. They also said that it appears Mr and Mrs N may be prioritising unsecured debts. The Financial Assist team said that the mortgage should be paid before any unsecured debts and that Mr and Mrs N should only make nominal payments towards unsecured debts before it can agree a concession.

The Financial Assist team said that in the circumstances it couldn't agree a formal payment arrangement and so the transfer didn't take place. The agent returned to the call and explained the situation to Mrs N. He said that as an alternative he could cancel Mr and Mrs N's direct debit and set them up as manual payees. That way they could make payments towards the mortgage each month that were affordable for them – but as a result arrears would continue to accrue. NatWest explained that because these are not considered arranged arrears, Mr and Mrs N would continue to receive contact about any arrears on the account.

Unhappy that NatWest couldn't do more to help them, Mr and Mrs N raised a further complaint. NatWest didn't uphold the complaint. It said that the decision made by the Financial Assist team was correctly taken. Mr and Mrs N remained unhappy and asked us to investigate the recent events as part of our ongoing investigations.

An investigator looked at what happened. She thought that NatWest hadn't done anything wrong and didn't uphold the complaint. The investigator's view largely focused on the events that occurred prior to the first complaint being raised – she thought that it wasn't unreasonable for NatWest to decline a permanent switch to interest only. In addition, she said that because Mr and Mrs N made it clear that they didn't want to consider any forbearance options that would impact their credit file – it wasn't unreasonable for NatWest to not explore those options further.

Mr and Mrs N remained unhappy and asked for their case to be decided by an ombudsman. They accept that they initially told NatWest that they didn't want to consider any forbearance options that would impact their credit score. However, once the mortgage became unaffordable and they fell into arrears, they asked for help again. They say that by the time they spoke to NatWest in June 2024 they were willing to explore other forbearance options available but were refused help from the Financial Assist team.

The investigator considered Mr and Mrs N's comments but explained why her opinion remained unchanged. The case was passed to me to decide.

Mr and Mrs N have recently told our service that their circumstances have changed. Mrs N has accepted a new job which she started on 11 November 2024. They say that she is receiving a higher salary and in a better position to repay the arrears and other financial

commitments. In addition, they say that Mr N has accepted an offer on his other property and the sale is expected to complete before the end of this calendar year, if not soon after.

I issued a provisional decision on 22 November 2024, in which I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Did NatWest act unfairly when declining a contractual switch from repayment to interest only?

Under the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) a request to change a mortgage from capital repayment to interest-only is considered to be a contractual change to the mortgage terms. In such circumstances, the lender is expected to carry out an affordability assessment before agreeing to the request.

As published on its website, NatWest sets the basic criteria that applicants must meet to be considered for a switch from repayment to interest only. One of those criteria is that joint applicants must have a combined joint income of £100,000.

However, meeting the basic criteria alone does not guarantee that the switch will be approved. NatWest must carry out a full affordability assessment to assess the applicants' circumstances and the suitability of the request. Mr and Mrs N met the basic criteria applicable and so they were able to proceed with an application through a mortgage advisor.

The mortgage advisor carried out an affordability assessment and found that based on their outgoings, Mr and Mrs N did not meet NatWest's lending criteria as they had a monthly deficit of £1,435. Because Mr and Mrs N didn't meet the affordability criteria, NatWest declined the request.

NatWest is entitled to set its own lending criteria and use its own judgement to determine its commercial attitude to risk. It's outside of my remit to interfere with such decisions made.

I can understand why Mr and Mrs N thought there to be a low risk to NatWest by transferring the mortgage to interest-only. Along with having a low loan to value ratio (LTV), they say that they managed the interest only payments whilst on the temporary switch under the Mortgage Charter and have other property that they could sell to pay off the mortgage at the end of the term. Mr and Mrs N made the point that a switch to interest only was in their benefit as it would only reduce their monthly payments and make the mortgage more affordable for them.

A consumer is only able to make one six-month switch to interest only under the Mortgage Charter. Because this is a variation of the mortgage contract to reduce the payments due for a limited period, it won't be recorded as arrears on their credit file. A consumer is only entitled to use this provision once. If after the six-month period they are still concerned about their mortgage payments, standard forbearance measures will need to be considered. They could request a switch to interest only again, but as this would be a payment arrangement rather than a contract variation, it could be recorded on their credit file.

A customer can apply for a switch to interest only through a permanent variation to their mortgage contract. A change to the mortgage contract of this nature requires the customer(s) to meet certain criteria and affordability requirements. Because Mr and Mrs N

didn't meet the affordability criteria for a permanent switch, I'm unable to find NatWest acted unfairly.

Did NatWest act unfairly by refusing Mr and Mrs N temporary forbearance support?

Mr and Mrs N say that at the very least they asked for a further temporary switch to interest only for three to six months to allow Mr N time to return to full time work and for their circumstances to improve.

Where a customer is experiencing financial difficulty, the lender is required to consider what forbearance options are appropriate in the circumstances of the individual customer. A temporary switch to interest only is one of several measures a lender can take to help support the customer get their mortgage back on track. Other options include a term extension, agreeing a reduced payment arrangement, capitalising the arrears or reviewing the interest rate and/or payment date – to name a few. While the customer can express their preferred option, it's for the lender to ultimately decide the most suitable forbearance option in the customer's individual circumstances.

It's important to point out that when the switch to interest only is temporary (for forbearance reasons), the difference in the payments may become agreed arrears and this will be reflected on the customer's credit file. When the arrangement ends, the lender will either capitalise the arrears and recalculate the monthly payments or agree a repayment plan to clear the arrears over time.

I understand that due to the nature of Mrs N's work, it is necessary for her to maintain a good credit profile. And so, during the conversations leading up to Mr and Mrs N's initial complaint being made, they said they didn't want to consider any options that would impact their credit score. As such, they accept that they refused help from the Financial Assist team.

For these reasons I can't say that NatWest treated Mr and Mrs N unfairly up until this point. They didn't qualify for a switch from repayment to interest only and they didn't want to explore other possible available options under NatWest's forbearance scheme.

Because a permanent switch wasn't agreed, Mr and Mrs N's mortgage reverted to capital and interest repayment at the end of the six-month Mortgage Charter concession period. The payments were unaffordable for them, and their account unfortunately fell into arrears.

In July 2024 Mr and Mrs N contacted NatWest again to ask for help. By this point they were willing to consider possible forbearance options because they couldn't afford to make their mortgage payments. They said that Mr N had put his other property on the market, and they were waiting for it to sell, to help free up some funds to repay their arrears and to maintain their mortgage payments moving forward.

I can understand why Mr and Mrs N were disappointed when NatWest said that it couldn't offer a solution to help them. And I agree that it's at this point that NatWest should have done more to assist them.

Where a customer is having trouble maintaining their mortgage payments, the lender should treat the customer fairly and explain in a clear and fair way what they can do to help. The lender should suggest flexible, tailored solutions, taking into account the consumers' personal and financial circumstances – to help get the mortgage back on track.

The agent Mrs N spoke to carried out an assessment to understand their income and other financial commitments. Mrs N said that they could make payments towards their mortgage but at the expense of other bills and commitments. This was supported by the information in the assessment. So, it appears there was potential for Mr and Mrs N to reduce their payments to other creditors to help free up some funds to make their mortgage payments.

It is reasonable for lenders to question payments towards unsecured debt. This is because the mortgage is a secured debt and should take priority over any unsecured debts. But I don't think that's a good enough reason for NatWest to refuse all help.

I don't think it was reasonable for the Financial Assist team (as the specialist team here) to refuse to speak to Mr and Mrs N on the basis that they should first make arrangements with their other creditors before seeking relief with their mortgage.

Rather than turning Mr and Mrs N away, the Financial Assist team ought to have had a conversation with them to discuss their circumstances and it should have offered support and forbearance when they asked for it. While it's not unreasonable for a lender to expect a customer to address their unsecured debt, NatWest should have offered support and forbearance (which might include telling Mr and Mrs N about other things they need to do to help their finances), not turn them away until they've done those other things first.

When dealing with customers in financial difficulty, lenders are required to consider (among other things) a reduced payment arrangement, which could include an arrangement to just pay interest and not capital, for a temporary period. That's what NatWest should have thought about here. NatWest ought to have offered Mr and Mrs N an arrangement based on what the income and expenditure assessment said they could afford – if they reduced their payments towards their unsecured debts.

I'm not convinced that it was fair for NatWest to refuse to consider forbearance unless Mr and Mrs N had already done all the right things to address their unsecured debts – without being told what they needed to do first.

So, to conclude when considering everything, I don't think that NatWest gave fair consideration to Mr and Mrs N's request for a short-term solution to their problem. And I don't think it was reasonable for it to not agree to provide support and forbearance in the circumstances. It's for these reasons that I intend to uphold this complaint and I expect NatWest to take steps to put things right by agreeing a suitable arrangement that should be backdated to July 2024 – full details set out below.

I've also thought about the impact NatWest turning Mr and Mrs N away when they asked for help has had on them. Mr and Mrs N have suffered several months of considerable distress, upset and worry about the impact of unarranged arrears on their mortgage. Overall, I consider an award of £500 to recognise the distress and inconvenience caused by NatWest's actions to be reasonable and in line with this service's guidelines on such compensation.

Putting things right

To put things right NatWest should:

- Contact Mr and Mrs N to discuss their current circumstances and any potential support or forbearance needed, including agreeing an arrangement to repay the outstanding arrears;*

- *Reassess Mr and Mrs N's circumstances to agree a backdated forbearance plan for them to July 2024 – this could include using the income and expenditure information available to NatWest at the time, combined with what it knows about Mr and Mrs N's circumstances now;*
- *Mr and Mrs N's mortgage account should be reworked, and any fees and charges applied to the account as a result of the unarranged arrears should be credited back to the account;*
- *Amend Mr and Mrs N's credit file to reflect the backdated arrangement; and*
- *Pay Mr and Mrs N £500 compensation.*

My provisional decision

My provisional decision is that I uphold Mr and Mrs N's complaint against National Westminster Bank Plc and I direct it to put things right as set out above."

Both parties responded to my provisional decision. Mr and Mrs N accepted my provisional findings. NatWest didn't agree that it has made an error here. In summary it said:

- The mortgage is now £6,806 in arrears. Forbearance is a temporary measure to last no more than three months. Mr and Mrs N have missed five payments in 2024 to date – April, May, August, September and November. It has already shown forbearance by agreeing to a six-month interest only period. The crux of Mr and Mrs N's complaint is that NatWest wouldn't agree to an extension of the interest only agreement.
- NatWest questions what will happen if an up-to-date assessment of Mr and Mrs N's income and expenditure is carried out but there is a deficit and therefore it is unable to agree a repayment plan to clear the arrears.
- NatWest says that it has signposted Mr and Mrs N to its financial health and support team, but they've refused help because they do not want any adverse data to show on their credit files.

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 note that neither party has made any new arguments, or provided any new evidence, that I've not already considered when reaching my provisional decision. So, I see no reason to depart from what I provisionally decided. That said I have taken into account the concerns raised by NatWest and I will address those below.

As I've set out in my provisional decision, I don't think that NatWest acted unfairly when it declined Mr and Mrs N's application for a switch to interest only under a variation of their contract. However, I do think that it acted unfairly when it refused to allow Mr and Mrs N to speak with its Financial Assist team about possible forbearance options when they were asking for help in late June 2024. I note that in my provisional decision I said that this call took place in July – but it was in fact on 25 June. I apologise for the error here.

By this point when Mr and Mrs N called NatWest for help in June 2024, they had accepted that any possible forbearance would reflect on their credit files. So, I don't agree when

NatWest says that it signposted Mr and Mrs N to its Financial Assist team, but it was them that refused any help. That is not what happened when Mr and Mrs N asked NatWest for help in June 2024.

By June 2024, Mr and Mrs N were two months in arrears. I note that NatWest says that Mr and Mrs N have missed five months of payments in 2024. Mr and Mrs N made their contractual monthly payments in June and July 2024, but they then experienced problems maintaining their payments thereafter. From June to November 2024 – Mr and Mrs N were due to make six contractual payments of £1,775.94, totalling £10,655.64. During this period, they've made payments totalling £7,401.88.

It's no surprise that Mr and Mrs N have not been able to afford their mortgage payments. They told NatWest in June 2024 that their mortgage had become unaffordable for them and that's why they asked for help. But NatWest said that it couldn't do anything to help them.

At the very least, Mr and Mrs N asked for a reduced payment plan to help them until Mr N sold his other property and he returned to full time work, after which their circumstances would improve – and they'd be able to clear their arrears and afford their mortgage payments moving forward. Mr and Mrs N have shown that they could afford a reduced payment arrangement. They've done their best to pay something towards their mortgage since.

Had NatWest agreed to a reduced payment arrangement, this would have had less of an impact on Mr and Mrs N's credit files than the unarranged arrears that have now accrued. In addition, it's not clear if NatWest has applied any fees and charges to their account because of the arrears – again this could have been avoided if an arrangement was in place.

So, in the circumstances I think the reasonable thing for NatWest to do would be to backdate a reduced payment arrangement – taking into account what it now knows about how Mr and Mrs N have managed their mortgage since June 2024. This should be in place until the end of January 2025 – to allow Mr and Mrs N time to respond to my final decision.

Thereafter, NatWest should engage with Mr and Mrs N about their plans to repay the arrears and get the mortgage back on track.

Mr and Mrs N have told our service that their circumstances have improved since they last spoke to NatWest. Mrs N has secured a new job receiving a higher salary and Mr N is due to complete on the sale of his other property soon. So, there appears to be prospect for them to get the mortgage back on track soon. They've said that once the property sells, they'll be able to repay the arrears on their mortgage and manage their payments moving forward.

However, if it's the case that Mr and Mrs N still can't afford to maintain their future mortgage payments, NatWest should carry out a further assessment of their current income and expenditure if necessary to understand what, if anything, it can do to support them moving forward.

I note that NatWest says that it offers forbearance for up to three months. How long forbearance should last will depend on the individual customers circumstances. While a lender can agree forbearance for a particular period, it is required to keep things under review and agree ongoing support where appropriate. So I don't think it's fair when NatWest says that it can only offer forbearance for a maximum of three months.

In this decision I've only made a finding on the events leading up to Mr and Mrs N's most recent complaint in June 2024. The outcome of any future forbearance considerations falls outside of the scope of this decision.

Putting things right

To put things right NatWest should:

- Backdate a reduced payment arrangement from June 2024 to January 2025 (inclusive), taking into account what it knows about how Mr and Mrs N have managed their mortgage during this time;
- Thereafter, NatWest should engage with Mr and Mrs N to discuss their current circumstances and the need for any potential ongoing support or forbearance, including agreeing an arrangement to repay the outstanding arrears;
- Mr and Mrs N's mortgage account should be reworked, and any fees and charges applied to the account as a result of the unarranged arrears should be credited back to the account;
- Amend Mr and Mrs N's credit file to reflect the backdated reduced payment arrangement; and
- Pay Mr and Mrs N £500 compensation.

My final decision

My final decision is that I uphold Mr and Mrs N's complaint against National Westminster Bank Plc and I direct it to put things right as set out above.

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

Arazu Eid
Ombudsman