

The complaint

Mr and Mrs M complain that Bank of Scotland plc trading as Halifax won't provide a further extension of their interest only mortgage after the term had been extended already for three years

What happened

Mr and Mrs M have an interest only mortgage with an outstanding balance of £207,000. Their house has been valued at about £468,000. The mortgage term was due to expire in 2018, so in 2017 Mr and Mrs M asked, through their financial adviser, for an extension of the mortgage term and a product transfer. At that stage their plan was to sell and relocate abroad and they needed three years to organise that. Halifax approved the term extension until August 2020. Mr and Mrs M also switched to a fixed interest rate product of 1.54% until 31 October 2019. That meant that for part of the extended period Mr and Mrs M would be on Halifax's standard variable rate ("SVR") but Halifax says that they were content with that as they hoped to be in a more secure financial position then and capable of paying the higher payments.

In 2019 Mr and Mrs M approached Halifax again looking a further extension. At that stage they were going on the SVR and wanted a further extension and a new mortgage product to lower the monthly payments. Halifax was unwilling to give a further term extension. It said that Mr and Mrs M didn't have an acceptable repayment vehicle in place and that it would be irresponsible to provide a further extension. It said that it looked at alternative mortgages with an element of repayment and at a retirement interest only mortgage. But it says that these were deemed unsuitable or unavailable as options. Halifax says that Mr and Mrs M own a property overseas and this could be used to pay off the mortgage.

Our investigator was of the view that Mr and Mrs M had got a three-year extension but had taken no reasonable steps during that period to repay their mortgage and didn't believe that a further extension would bring any resolution. On that basis she didn't recommend that this complaint should be upheld. Mr and Mrs M disagreed saying in summary that they had several options to repay the mortgage, but they would rather do this in three years' time.

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.

It seems that at one time Mr and Mrs M had an endowment policy as an intended repayment vehicle, but this was cashed in to pay other debts. So, in 2017 Mr and Mrs M weren't in a position to pay off the capital balance on the mortgage and asked for an extension. The notes on Halifax's file at that stage say that Mrs M had an income from her part time employment of about £11,000 per year although Mr M who was setting up a business had no income. There were no financial dependants. The notes also say that they wanted an extension to see if Mr M's business would generate income to repay the mortgage or alternatively, they would sell their house and move abroad. Halifax granted an extension, but

it was clearly on the basis to allow Mr and Mrs M time to address the issue of repaying the loan. I don't agree with Mr and Mrs M's belief that it was reasonable to assume that they would subsequently get a further term extension.

Mr and Mrs M have a difficulty. Mr and Mrs M owe Halifax about £207,000 which was to be repaid in 2018 but that hasn't happened yet. In 2017 they got an interest only mortgage extension which I understand was to give them some breathing space to address that issue. But things remain much as they were then although I note that Mr M is now able to get a state pension. However, Mr and Mrs M won't be able to pay the capital balance off through their pension and other income. I note that Halifax looked at repayment options for the mortgage, but Mr and Mrs M's income won't allow a realistic repayment option. I understand that they have a property abroad but that this is a property that they might want to move to eventually and not sell. In any case, from what Mr and Mrs M tell me, it isn't readily saleable.

Recently, Mr and Mrs M seem to be exploring the option of refinancing the property, I assume through an equity release scheme. But they also have the option to sell and downsize. They are clearly not without options. I appreciate that they would prefer to remain in the property. On the other hand, under the terms of the mortgage, they agreed to repay the money to Halifax in 2018 and Halifax should expect to get paid.

Although Mr and Mrs M don't have a repayment vehicle in place which formed the basis of Halifax's refusal of a further extension, I've considered whether it would be in Mr and Mrs M's best interests for Halifax to provide such an extension. But I don't believe it would be. Presently there is equity in their property and the issues that they referred to that overhung the property market in 2019 are no longer there.

Mr and Mrs M have the prospect of obtaining an equity release product or alternatively the ability to sell and downsize. In their email to us in February of this year Mr and Mrs M say that after a recent valuation that they have equity of £245,000-£275,000 in the property. Given that Mr and Mrs M should be able to pay off this mortgage now I don't see how either of the above strategies benefit from a further delay with Mr and Mrs M exposing themselves to various financial risks including the risks of changes to the housing market. So, I don't believe that Halifax was acting unfairly when it refused their request for a term extension and I don't uphold this complaint.

I've also looked at the issue of Mr and Mrs M going onto the SVR after two years of the previous extension. This resulted from the mortgage product only covering two rather than three years of that extension. But that seems to have suited Mr and Mrs M's expressed plans at the time as there was an expectation that in the final year, they would be selling their property. If they had been recommended a three-year mortgage product that would have generated a further charge - an early repayment charge - if their plans to sell had worked out so I can't say that Halifax's recommendation of a two-year mortgage product was inappropriate.

I note that presently Mr and Mrs M are looking at the option of refinancing. I would ask Halifax to allow them a short period to see if this is feasible. If it is not, and Mr and Mrs M decide to sell the property, I would ask Halifax to give them a reasonable period to market and sell the property.

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 Mrs M and Mr M to accept or reject my decision before 22 July 2021.

Gerard McManus
Ombudsman