DRN-2897756

The complaint

This complaint is about. Miss Y's mortgage with TSB Bank plc. Miss Y is unhappy that TSB won't consolidate her unsecured debt into the mortgage over an extended term.

What happened

The details of this complaint are well known to both parties so I won't repeat them again in detail here. Instead I'll give a brief summary of the current circumstances, rounding the figures where appropriate, and then focus on giving the reasons for my decision.

Although I've read and considered the whole file, I'll keep my comments to what I think is relevant. If I don't comment on any specific point it's not because I've failed to consider it but because I don't think I need to comment on it in order to reach what I think is the right outcome in the wider context. My remit is to take an overview and decide what's fair "in the round".

Miss Y has a repayment mortgage and two unsecured debts – a credit card and loan, both with TSB. Due to a sudden and irreversible deterioration in her health, Miss Y is now unable to work and is reliant on benefits for her income. She currently has an income/expenditure deficit of around £600; Miss Y's mother is supporting her by lending her money to make up the shortfall.

Since she notified it of her changed situation, TSB has offered a series of temporary interest-only concessions, but finding agreement on a longer-term solution has proved problematic. Ultimately, what Miss E would like to TSB to do is consolidate her unsecured debts into the mortgage and reschedule the entire debt on a capital repayment basis over fourteen years. TSB is prepared to extend the term of the mortgage debt as it stands, but isn't willing to consolidate the unsecured debt into the mortgage.

What I've decided – and why

We have no regulatory function; that's the role of the Financial Conduct Authority; nor are we a consumer protection body. We're an alternative dispute resolution body; an informal alternative to the courts for financial businesses and their customer to resolve their differences.

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. That means I don't have to address every individual question or issue that's been raised if I don't think it changes the outcome.

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

We'd expect a lender to consider offering help to consumers going through a temporary problem, especially in situations where it can be seen their situation is likely to improve. Clearly, TSB has done that for Miss Y, by virtue of the interest-only concessions it had agreed at regular intervals since it became aware of her circumstances. The real difficulty in Miss Y's case is that her financial difficulties aren't temporary; she needs a permanent solution.

I've looked at everything that has passed between the parties over the past two years or so. The first observation I have to make is to say that both parties have approached this situation openly and frankly, and communication between TSB and Miss Y has always been pro-active and conducted in a co-operative manner. That's very often not the case in situations as sensitive as this one is.

However, the sticking point is that with one exception (which I'll come to shortly) none of the potential solutions that have been discussed will move Miss Y into a position where her income significantly exceeds her expenditure without contributions from her mother. All they would do is reduce the shortfall. This is despite Miss Y taking the decision to sell her car and become reliant on public transport.

I said a moment ago there was one exception; Miss Y has provided a working hypothesis to show that if her unsecured debt was absorbed into the mortgage (taking the balance from around £16,000 to approximately £30,000) and the term extended to fourteen years (taking her to age 75) then she could afford the repayments. This is on the proviso that the newly consolidated debt is on capital repayment from the outset whilst the core mortgage debt remains on interest-only until she receives her state pension in six years' time, and switched to capital repayment thereafter.

TSB won't agree to this; it's not happy to consolidate debt where there is an income shortfall and, as I understand it, that Miss Y doesn't have a workable repayment vehicle for the interest-only segment in the meantime. This is the very nub of the argument, so I've given it a great deal of thought. Having done so, whilst I fully accept Miss Y finds the decision unwelcome, I can't find it to be unfair treatment on TSB's part.

I say this not least because even though it would move Miss Y into a positive income/expenditure position, the monthly surplus would still be very small; in the region of £40 or so. Miss Y's wider finances would remain marginal at best, and she'd still be left exposed to even quite small, one-off, financial shocks. Even a modest repair bill would be enough to put her back into deficit in any given month.

Also, the proposal runs contrary to TSB's lending policy on two counts. That's not to say a lender can always rely on a strict application of its lending policy; fair treatment will sometime require a degree of flexibility, especially if there are no other alternatives for the borrower. Here, however, I think Miss Y does have an alternative, even if perhaps she doesn't realise it.

I understand why Miss Y has discounted selling and downsizing to repay the mortgage. Although her loan to value ratio is low (around 11% as I understand it) and she has substantial equity, her current home is a one-bedroomed flat. Realistically, Miss Y would not be able to find a cheaper property that was still a realistic home for her needs. There is another option that Miss Y has also discounted, but I think is perhaps more viable than she realises.

Miss Y has ruled out equity release because she doesn't see her current home as being her last. Aside from the slight contradiction with her earlier point about not downsizing, a person need not be in their "final home" before taking equity release. There are equity release providers in the market offering quite flexible products, that allow borrowers to make interest payments if they wish, to stop the debt from growing; some even allow borrowers to make capital reductions if and when their circumstances allow.

More significantly, some providers offer equity release mortgage where the early repayment charge levied on redemption (the typical barrier for those wanting to sell and move somewhere else) isn't a permanent feature of the mortgage, but expires after a specified period. Thereafter, the borrower can repay the mortgage without fear of incurring an early repayment charge. I'd recommend Miss Y seek advice from an advisor who specialises in the wider equity release market, and who is also independent rather than tied to one provider.

My final decision

My final decision is that I don't uphold this complaint. My final decision concludes this service's consideration of this complaint, which means I'll not be engaging in any further discussion of the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss E to accept or reject my decision before 20 September 2021.
Jeff Parrington
Ombudsman