DRN-3551191

The complaint

Mr and Mrs G are unhappy that Oakwood Homeloans Limited has declined a term extension on their expired interest-only mortgage.

What happened

In May 2006 Mr and Mrs G took out a mortgage with a lender, G. They borrowed just under £400,000 on an interest-only basis over a term of 15 years. The mortgage has since been transferred to Oakwood. The mortgage term came to an end in May 2021.

In March 2021 Mr and Mrs G asked Oakwood for a five-year term extension. They explained they'd been through some financial difficulties after the financial crash in 2008, resulting in arrears on the account. Their original repayment vehicle – a commercial property – had been lost in 2013, again due to the financial crash. Mr and Mrs G told Oakwood they had intended to re-mortgage, but that this had been affected by the pandemic, and so their plans had been disrupted by several years. Mr and Mrs G wanted Oakwood to extend the term by five years so they could achieve the true value when they eventually came to sell it.

Mr and Mrs G explained to Oakwood on 6 April 2021 that they would have the money available to repay the mortgage on or before 31 October 2021 and wanted to defer repayment of the mortgage until then. Oakwood agreed to this.

However, on 6 July 2021, Mr and Mrs G wrote to Oakwood explaining that their IFA had told them there was no prospect of a re-mortgage in the foreseeable future, but they'd been advised by an estate agent that with various work completed (building a log cabin and a wildlife pond), they should achieve a sale of £550,000-£575,000. Mr and Mrs G asked Oakwood for an extension until the spring of 2023, when their property would be put on the market for sale.

Oakwood wasn't able to agree to this. In Oakwood's response of 15 July 2021 was noted that there was no estate agent's valuation of the potential sale price without the log cabin and wildlife pond. Oakwood asked Mr and Mrs G if they'd considered selling the property in its current state. Oakwood also suggested Mr and Mrs G took independent financial advice. Because repayment of the mortgage wasn't due until 31 October 2021, Oakwood thought this would give Mr and Mrs G ample time to put in place an alternative repayment strategy.

Mr and Mrs G brought their complaint to the Financial Ombudsman Service on 4 August 2021. They said that Oakwood was acting aggressively and had refused to take into account their extenuating circumstances. Mr and Mrs G wanted a two-year term extension and emphasised that they were under a deadline for this to be resolved, given that they'd previously agreed to repay the mortgage by 31 October 2021.

An investigator looked at what had happened. In a letter dated 13 May 2022, the investigator explained that, given the work that needed to be done to the property (excluding the log cabin and wildlife pond), an extension of twelve months should be granted.

Neither Mr and Mrs G nor Oakwood agreed with this. Initially, Mr and Mrs G said that, given the *"vagaries of fortune"*, a two-year term extension was more realistic.

In a further response, Mr G, who has largely dealt with the complaint, says that putting the property on the market in October 2022 with a view to selling it by May 2023 is also unrealistic, as it won't be possible by then to have completed the majority of the work needed to be done to the property, let alone clearing an old industrial building and completing the log cabin and wildlife pond.

Although in the original complaint and his initial response to the investigator Mr G had asked for a two-year extension to May 2023, Mr G was now saying that, because of losses incurred as a result of the 2008 financial crash, the pandemic, and health reasons, it was *"not unreasonable for us to adhere to our original request for a five-year extension"*.

Mr G also gave his opinion on Oakwood's business practices in buying other lenders' mortgage books. Mr G believes that the interest he's paid to Oakwood is far in excess of the price Oakwood probably paid to his original lender, G, to purchase the mortgage.

Oakwood, on the other hand, thought three months was the maximum extension that should be granted and that if any further extension was given, this would not give Mr and Mrs G any impetus to progress a sale.

Because the matter is unresolved, it falls to me to issue a final decision.

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.

First of all, whilst I've noted Mr G's criticism of Oakwood's business model, this isn't something that falls within my remit, so I won't comment any further on it.

I note that, although Mr and Mrs G originally asked in their complaint for a two-year term extension, they have now changed their minds and would like me to order Oakwood to extend the mortgage term for five years.

Oakwood believes that extending the term to May 2023, as suggested by the investigator, wouldn't be helpful, as there has been little progress in improving the property to put it on sale, and so an extension to May 2023 isn't likely to help the situation.

There is a clear disparity in what Mr and Mrs G are now asking for – an additional five-year extension – and the three-month extension that Oakwood feels is fair. I have to decide what I consider to be fair in all the circumstances.

Mr and Mrs G haven't applied for a new mortgage product. They want to continue to pay interest on the outstanding balance until the property is sold, and to be allowed to do so for a further five years, so until June 2027 (from the date of this decision). It is a term of the contract that the mortgage debt is repaid by the end of the term, which was originally May 2021, and the debt has been overdue since the extension granted by Oakwood expired on 31 October 2021. It's reasonable for Oakwood to expect repayment of the debt.

I've noted what Mr and Mrs G said about losing their original repayment vehicle. However, this was sold in 2013, some eight years before the mortgage term expired. Given this, although I am sympathetic to Mr and Mrs G's position, they have known since at least 2013 that they would need to have an alternative repayment strategy in place for when the mortgage term came to an end in 2021.

I appreciate Mr and Mrs G want to carry out work to improve the property for the open market. They've explained that they are in the process of replacing double glazing, rotten barge boards and fascia boards. Mr and Mrs G have also mentioned cosmetic work they want to do to the property, as well as replacing the bathroom.

Whilst replacing the windows and repairing the barge boards and fascia boards is likely to be essential work – and which Mr and Mrs G have confirmed is already being done – I'm not persuaded they are required to replace the bathroom or carry out all the cosmetic work they want to do before putting the property on the market, as these are things that buyers will often want to change themselves in any event.

I'm also not persuaded that clearing an industrial building – which Mr G has confirmed isn't on the property title but is held on a separate deed – or building a log cabin and a wildlife pond – are necessary in order to sell the property.

Putting things right

In the circumstances, and taking into consideration Mr and Mrs G's ages and health issues, I think that an extension to 13 May 2023 for a sale of the property is reasonable in all the circumstances. In deciding this, I've taken account of what Oakwood has said. However, I think three months is too short a time for a sale of the property.

If by 13 May 2023 the mortgage hasn't been repaid, or Oakwood hasn't been provided with confirmation from Mr and Mrs G's solicitors that a sale is in progress with an imminent exchange of contracts, then Oakwood would be justified in pursuing legal action to recover the outstanding debt.

That, of course, is a last resort, so I hope that by 13 May 2023 Mr and Mrs G will have sold the property or arranged alternative finance to repay the debt. It might be helpful for Mr and Mrs G to speak to an independent financial adviser to see what other options might be available to them, such as an equity release or RIO (retirement interest only) mortgage. But it would be remiss of me if I did not emphasise the seriousness of the situation Mr and Mrs G are in and the urgency with which they need to address this matter.

In the circumstances, I don't think Oakwood has acted unfairly in declining either a two-year or five-year term extension, as requested by Mr and Mrs G. However, I think Oakwood should extend the time for Mr and Mrs G to repay the mortgage to 13 May 2023.

My final decision

My final decision is that I partially uphold this complaint. I direct Oakwood Homeloans Limited to allow Mr and Mrs G until 13 May 2023 to repay their mortgage in full.

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 correspondence about the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G and Mrs G to accept or reject my decision before 26 July 2022.

Jan O'Leary
Ombudsman