

The complaint

Mr S complains that Santander UK Plc treated him unfairly when he asked to extend the term of his interest only mortgage. He says it caused delays during which time interest rates increased. He asks that it offers him an extension on the rates available in early 2022, or pays compensation for his costs and his suffering and distress.

What happened

The term of Mr S's interest only mortgage was due to expire in July 2022. In early 2022 he contacted Santander to request an extension.

Mr S says Santander's service was poor and it caused delays. Santander then declined the application, saying it wasn't affordable. Mr S re-mortgaged with another lender.

I sent a provisional decision to the parties explaining why I intended to uphold the complaint. I said Santander's error wasn't that it declined Mr S's request for a term extension. Its error was that it delayed telling Mr S this.

I asked both parties to send further information, so that I could assess whether Mr S had financial loss that Santander should compensate him for. Santander provided the requested information, about when Mr S's product expired and the interest rate applied after this.

Mr S didn't agree. He said Santander knew throughout that he had dependent children. He said it requested documents unnecessarily and this breached his privacy and human rights. He set out the timeline and Santander's poor service. He says Santander's error resulted in him incurring significant additional interest.

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.

Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

The term of Mr S's interest only mortgage was due to expire in July 2022. His fixed rate product was due to expire in May 2022. Mr S applied for a term extension in early 2022. Mr S is unhappy that Santander didn't extend the term of his mortgage. And he says it caused delays with the application.

First, I don't think Santander was unfair to decline to extend the term of Mr S's mortgage.

Rules on mortgage regulation changed in 2014. The new rules include requirements for lenders to carry out strict affordability assessments before offering or agreeing to vary a mortgage. There are exceptions to this for existing borrowers that meet certain conditions. The rules are contained in the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).

There were two potential routes under MCOB for Santander to agree the term extension that Mr S requested, despite any concerns about affordability. Our investigator said Santander should have considered whether this would have been in Mr S's best interests.

When a borrower is unable to repay their interest only mortgage at the end of the term, I'd expect the lender to treat the borrower fairly and give fair and reasonable consideration to any requests made by the borrower to help them. Some possible options include term extensions, converting to a repayment mortgage or allowing overpayments.

Mr S wanted to extend the term of the mortgage to his 70th birthday and use a pension lump sum to repay it. He provided evidence that his pension fund was sufficient to repay the mortgage.

However, I must take into account here that Mr S did have options to repay the mortgage balance at the end of the term in 2022. He was able to do this by taking out a retirement interest only mortgage with another lender. But Mr S also had the option of repaying the balance using his tax-free pension lump sum. Mr S confirmed he was able to take the tax-free lump sum in 2022. He didn't want to do this as he hoped his pension investments would increase in value. But this was another option for him to repay the mortgage.

When Mr S took the mortgage out, he agreed to repay the outstanding capital at the end of the term in 2022. It's not unreasonable for Santander to expect the loan to be repaid as agreed.

Mr S was asking Santander to extend the term not because he couldn't repay the mortgage, but because this was his preferred option. Even if Santander had considered whether this was in Mr S's best interests this doesn't mean it would have extended the term. For instance, it would have had to take into account that Mr S's pension investments might not increase in value, and could even decrease. And he'd be paying interest on his mortgage in the meantime.

Taking all of the circumstances into account, I don't think I can fairly find that Santander made an error or treated Mr S unfairly when it declined to extend the term of his mortgage.

I do think though that Santander caused delays in reaching a decision and its service was poor.

Mr S provided documents requested by Santander in mid-February 2022. Santander said it couldn't extend the term with Mr S's pension as the repayment vehicle. Santander provided its policy for extending interest only mortgages. I think it followed its policy when it asked Mr S to provide a sale of property form, confirming he'd sell the property if necessary to repay the mortgage.

Mr S was reluctant to provide this as he felt his pension was sufficient. He provided the signed sale of property form at the end of March 2022.

There was a delay at this point caused by Santander. Mr S chased Santander in mid-April 2022 as he hadn't heard from it. And he called again at the beginning of May 2022.

Santander said Mr S's application had timed out by the end of March 2022. When Mr S provided the sale of property form it re-submitted the application, but it failed affordability due to the increase in the cost of living and interest rate stress tests.

Santander asked Mr S to send up to date bank statements and income evidence. Once it received this it booked an appointment with a mortgage adviser for mid-May 2020. At this

point Santander included Mr S's two dependent children in the application. This meant the application failed affordability. Santander accepts it should have identified that Mr S had dependants in February 2022.

Mr S made a number of overpayments during June and July 2022 (totalling nearly £30,000) and re-mortgaged with another lender at the end of July 2022.

Putting things right

Santander's error here isn't that it declined Mr S's request for a term extension. Its error is that it caused a delay in telling Mr S this.

Mr S asks that Santander pays compensation for the increase in interest rates during the delay. He says he should be given compensation based on the difference between the rate he's paying and the Santander product rate he applied for in early 2022. I don't think that would be fair. Santander didn't agree to extend the term of Mr S's mortgage, so this product rate wasn't available to him. And from what Mr S has told us, it seems the mortgage he's taken out is a retirement interest only mortgage (RIO), with features different from the Santander mortgage he wanted to extend.

Santander says it should have identified that Mr S had financial dependants (making the mortgage unaffordable) in February 2022. Had it done so, and declined the extension at that time, Mr S would have been able to look elsewhere sooner. Most likely he'd have been in a position to re-mortgage about the time or soon after his fixed interest product ended.

Santander provided a copy of the product offer that Mr S accepted in 2020. His fixed rate product ended on 2 May 2022. After this, a variable rate applied which was 3.25% above the Bank of England base rate. The base rate was 1% in early May 2022 and 1.25% from mid-June 2022. This meant Mr S paid interest at 4.25% in May and June 2022, and then at 4.5% until he repaid the mortgage at the end of July 2022.

Mr S provided a recommendation for a RIO which shows an interest rate of 4.49%. This was higher than the rate being applied to his Santander mortgage after his product expired, and marginally less than the rate applied in July 2022.

Mr S made a number of overpayments through June and July 2022 before taking out the RIO. Mr S said he funded the overpayments by selling assets at an inconvenient time. Mr S hasn't said if he had to do this in order to take out the RIO, or if it was simply advantageous for him to do so. I don't know if Mr S would have been able (and willing) to sell these assets sooner, so that he could re-mortgage sooner. I asked Mr S for evidence about the RIO, in particular the interest rate and the amount he borrowed. Mr S didn't provide this.

Based on the available evidence I don't think I can fairly find that Mr S would have taken out the RIO earlier if Santander had told him at the outset that it wouldn't extend the term of his interest only mortgage. I don't think I can fairly find that Mr S suffered a financial loss as a result of the delay.

I think it's right that Santander pays compensation for the worry and upset caused by the delays. Most of Mr S's upset here is likely due to Santander declining his request to extend the term of his mortgage. That's not something I can fairly require Santander to pay compensation for. But Mr S had to chase Santander to find out what was happening with his application. This was only a short time before the term of his mortgage was due to expire. Santander asked Mr S for information and documents after it should have told him it wouldn't extend the term of his mortgage. He says this breached his privacy and human rights. The data should be held securely in accordance with Santander's data policy. Whether this is a

breach of Mr S's human rights would be a matter for a court. But providing this information certainly meant Mr S was put to unnecessary effort and inconvenience.

Santander paid £175 compensation and agreed with our investigator's recommendation that it pay another £300. In the circumstances and based on the available evidence, I think this is fair and reasonable compensation for the upset caused.

My final decision

My decision is that Santander UK Plc should pay £300 (in addition to the £175 already paid) to Mr S.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 7 February 2023.

Ruth Stevenson
Ombudsman