

## **The complaint**

Mr M complains that Bank of Scotland plc (trading as Halifax) didn't treat him fairly when he asked it to extend the term of his mortgage. A representative, who I'll refer to as Mr L, has helped Mr M with this complaint.

## **What happened**

The term of Mr M's interest only mortgage expired in April 2022. He'd intended to repay it, but his plans changed due to the Covid-19 pandemic. Mr M asked Halifax to extend the term.

Halifax said a term extension on a repayment basis was affordable provided Mr M reduced the loan by about £7,500. Mr M did this in early March 2022. Mr L says Halifax made a mortgage offer on this basis, but problems with its own systems meant Mr M couldn't access and accept the offer. Halifax said it didn't make an offer as it realised there had been an error when it checked Mr M's income. It said Mr M needed to reduce the loan by another £5,000 before re-applying. Halifax accepts it made errors and paid compensation of £150.

Mr L says that Halifax should allow Mr M to proceed with the original mortgage offer with the interest rate available at that time.

Our investigator said it was reasonable for Halifax to check the mortgage was affordable before making an offer to extend the mortgage term. Our investigator said Halifax's error caused upset and it should pay further compensation of £150, which Halifax agreed to do.

Mr L says it's absurd for Halifax to say Mr M has to repay the mortgage because an extension isn't affordable. He said it's wrong for Halifax to exclude income Mr M could draw from his flexi-pension when assessing affordability. Mr L says repaying the mortgage now would have tax implications for Mr M which means it's not in his best interests.

Mr L says Halifax made an offer to Mr M (he provided a screen shot which he says is evidence of this) and admitted its errors. He said if Halifax's systems had worked properly Mr M would now have a mortgage extension.

## **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 should explain that 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. Mr L says we should ask for recordings or transcripts of his and Mr M's calls with Halifax. I don't think it's necessary to do this to reach a fair outcome. I'm satisfied the evidence I've received is sufficient for me to decide what's fair and reasonable in all the circumstances of this complaint.

Mr M contacted Halifax in 2021. He said he'd intended to repay the mortgage by either downsizing or using his pension, but his plans were affected by the Covid-19 pandemic. He said he needed to take care to avoid the virus which made it more difficult to view properties or have people view his property. And his pension was invested in the stock markets which have seen significant volatility.

Mr L contacted Halifax on behalf of Mr M in late 2021. He said Mr M was able to repay the mortgage but would prefer his funds to remain invested while he continued to work. Mr L contacted Halifax again in early 2022 to discuss a term extension.

Halifax accepts it made errors.

First, when Mr L spoke to Halifax in January 2022, it said an extension would be affordable on a repayment basis over nine years if Mr M reduced the loan by £7,500. While this was correct at the time, Mr M was about to have a birthday. This meant Halifax could only lend over eight years (which would take the loan term up to Mr M's maximum age). The shorter term meant Mr M would have to make higher monthly payments.

Second, when Mr M spoke with a mortgage adviser in early March 2022, Halifax made an error which meant it incorrectly assessed the mortgage as affordable without a further reduction in the balance. It made a recommendation and issued a mortgage illustration on this basis.

Halifax made Mr M aware of its error about a week later, in mid-March 2022. Mr M was told he needed to reduce the balance by another £5,000 to continue with the application and the interest rate product he wanted.

Mr L says there were problems with Halifax's systems which meant Mr M missed out on the deal he wanted. I've read the notes of Mr M's call with the mortgage adviser in early March 2022. These refer to her sending him an upload link and digital acceptance. She said he'd need to read and accept the documents, and once he'd done this to call for an update on his application. This is consistent with the screen shot Mr L sent. Mr M was unable to use the upload link. But this didn't make any difference to the outcome here. Halifax didn't issue a mortgage offer to Mr M – Halifax realised it had made an error before his application got to that stage.

Mr L made a complaint. Halifax issued a final response letter in late March 2022 saying Mr M would have to reduce the balance of the mortgage by another £5,000 to continue with the application. It also said as interest rates increased this would make it more difficult to meet affordability stress tests. Mr M met the stress tests – subject to the further capital repayment – in late March 2022. However, Mr M didn't make the additional payment to reduce the balance so he could continue with the application and the interest rate product he wanted.

I don't think it's fair and reasonable to require Halifax to offer Mr M a mortgage without a further capital reduction, and at the rates available in March 2022. This is for the following reasons.

- There's no evidence that Halifax offered Mr M a mortgage on this basis. While Halifax issued a mortgage illustration, that's not an offer to lend.
- Halifax is entitled to carry out checks before offering to lend, to ensure a mortgage is affordable. I appreciate that Mr L believes Halifax should have assessed Mr M's income differently. But, like all lenders, Halifax has, and is entitled to apply, lending criteria about what types of income it accepts for an affordability assessment.

- Halifax gave Mr M correct information – that he'd need to reduce the capital balance further – in mid-March 2022. Mr M had the opportunity to make the additional payment and secure the interest rate he wanted.
- Mr L has said there were tax implications for Mr M in making an additional payment. He hasn't said Mr M was unable to make the payment.

Mr L says it's absurd for Halifax to say that Mr M can't afford a term extension when he can repay the mortgage. I should say here that Halifax wasn't obliged to offer a term extension to Mr M. When Mr M took out the mortgage he agreed to repay it by the end of the term, and it seems he was able to do so. It suited Mr M to extend the term and Halifax told Mr M the basis on which it would agree to this. It was for Mr M to decide how to proceed.

Mr M should contact Halifax if he wants to proceed with a term extension. It's likely he will need to start a new application, on the basis of the interest rate products now available. Halifax will be entitled to ask him for updated information and to apply its current lending criteria and affordability tests.

### **Putting things right**

Mr M arranged for a payment of £7,500 to reduce the mortgage balance. It must have been disappointing to be told shortly after this that he needed to make another payment of £5,000 to continue with the application. I think it's right that Halifax agreed to pay a further £150 compensation for Mr M's upset.

### **My final decision**

My decision is that Bank of Scotland plc (trading as Halifax) should pay £150 to Mr M (in addition to the £150 it's already paid).

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 17 May 2023.

Ruth Stevenson  
**Ombudsman**