

The complaint

Mr C has complained about his mortgage he holds with Lloyds Bank PLC. He says he agreed, in 2018, for the mortgage term to be extended to eight years for the whole mortgage but it turns out that the term was only extended for one sub-account, with the four other sub-accounts remaining on a shorter term. He also said he thought extending the term for his other four sub-accounts would be a simple administrative procedure, but it wasn't and his application was declined.

What happened

Mr C took this mortgage out with Cheltenham & Gloucester ("C&G") in 2000. The mortgage offer issued in May 2020 showed Mr C was borrowing £355,500 over a 16-year term on an interest only basis. The interest rate was fixed at 5.79% until 31 July 2020, after which it would move to C&G's standard variable mortgage rate ("SVMR") which was capped at 2% above Bank of England base rate ("base rate").

In April 2001 an additional borrowing offer was issued for £50,000 over a 15-year term on an interest only basis. The offer showed the interest rate to be 0.95% above base rate until 31 December 2005, after which it would move to C&G's SVMR.

In May 2004 an additional borrowing offer was issued for £100,000 over a 12-year term on an interest only basis. The offer showed the interest rate to be a 1.35% discount from C&G's SVR for 24 months, after which it would move to the full SVMR.

In June 2005 an additional borrowing offer was issued for £100,000 over an 11-year term on an interest only basis. The offer showed the interest rate to be 1.14% above base rate until 31 December 2008, after which it would move to C&G's SVMR.

C&G wrote to Mr C on 22 December 2015 to say that sub-accounts 1 and 99 were due to expire on 1 June 2016. It said that as those were held on an interest only basis Mr C needed to ensure he had sufficient funds to repay those sub-accounts in full when the term came to an end.

C&G sent a further letter on 18 January 2016, this time reminding Mr C that the term on sub-account 4 was due to end on 1 July 2016.

In 2016 Mr C requested the term be extended on his entire mortgage as he said he wanted to delay taking his pension until he was 75 years old (which would be in early 2022), and whilst he had funds available at that time, they were held in investments and again he didn't want to use them until he was 75 years old.

It was agreed as part of the 2016 mortgage review that sub-account 5 would be changed from interest only to a repayment basis, with the other sub-accounts remaining on interest only and that the term would be extended on all the parts of the mortgage. A mortgage offer was issued on 6 September 2016 showing a six-year term for all five sub-accounts, with sub-accounts 1, 2, 3 and 4 being interest only and sub-account 5 being repayment. All the sub-accounts were on the SVMR, which was 2.25% at that time.

In September 2016 C&G wrote to Mr C to say that from April 2017 his mortgage would be managed directly by Lloyds. It said the mortgage terms and conditions remained the same, but the branding would be changed over the coming months.

In August 2018 Mr C applied for a product transfer for sub-account 5 and a mortgage offer was issued for that on 3 September 2018. At that time the term on sub-account 5 – the repayment part of the mortgage - was extended again until 30 September 2026, but the other sub-accounts remained with a term end date of 30 September 2022. Sub-account 5 was transferred onto a fixed interest rate of 2.41% until 31 October 2023, with the remainder of the sub-accounts remaining on the SVMR

Lloyds sent a mortgage review letter in October 2019. That said that it would be introducing yearly checks to make sure Mr C's mortgage payments are on target to repay the mortgage within the mortgage term. It said the first yearly check would be as part of the annual mortgage statement to be issued in December 2020.

A second letter was sent the same month which was entitled *"Please talk to us now about your plan(s) to repay your interest-only mortgage"*. That said that part of the mortgage was interest only and asked Mr C to get in touch (either by phone or by returning a form it had enclosed) to let Lloyds know how he intended to repay the interest only parts of his mortgage. The letter included a table showing how Mr C's mortgage was set up, and that said:

Sub-account number	Current balance	Method of repayment	Term end date (when final payment is due)
01	£288190.02	Interest Only	30 September 2022
02	£53479.29	Interest Only	30 September 2022
03	£107670.61	Interest Only	30 September 2022
04	£107746.83	Interest Only	30 September 2022
05	£33213.38	Repayment	30 September 2026
99	£3994.11	Interest Only	30 September 2022
TOTAL	£594294.24		

Lloyds issued annual mortgage statements in January each year; so statements were issued in January 2019, January 2020, January 2021 and January 2022. The statement issued in January 2022 showed the interest only balance was just under £560,000, and the repayment sub-account had around £23,000 remaining.

In September 2022 Mr C contacted Lloyds as he wanted to apply for a product transfer and he was told the interest only sub-account terms ended in 2022. Unhappy with that Mr C raised a complaint.

Lloyds issued a complaint response letter on 7 November 2022. It said that as part of a mortgage review in 2018 Mr C took a new fixed rate for sub-account 5 which was held on a repayment basis. Lloyds said that Mr C had told it that the mortgage adviser informed him he

couldn't extend the term of the interest only parts at the time due to its lending policy however when the mortgage was moved under Lloyds' branding then the lending policy would change, and the process to extend the term would be a simple administrative procedure. Lloyds apologised, saying that was incorrect information. It said its notes indicated it couldn't extend the term of the interest only sub-accounts in 2018 as Mr C's income didn't meet its minimum requirements, and he should have been told a new full review would be needed to apply for a term extension, and the outcome of that wasn't guaranteed. Lloyds paid £150 compensation to Mr C for that misinformation. It said the terms had ended on sub-accounts 1, 2, 3, 4 and 99 and needed to be repaid. It asked Mr C to speak to its end of term team to discuss next steps. It said based on initial conversations that had been held it was unable to offer a further term extension, albeit it would await the outcome of the complaint.

A follow up complaint response letter was issued on 19 December 2022 as Mr C had said his 2018 mortgage offer said the term was 8 years. Lloyds said that the part of the 2018 mortgage offer Mr C was referring to was just the overall mortgage summary contained in the covering letter, and that the letter said full details were in the accompanying mortgage illustration. Lloyds said the mortgage illustration that was provided as part of the mortgage offer showed sub-accounts 1, 2, 3 and 4 all expired in 4 years, with only sub-account 5 having 8 years remaining. It also said that the information shown on Mr C's credit file was the overall mortgage, and as one of the sub-accounts didn't end until 2026 that is the overall term end that would be shown.

On 27 January 2023 Lloyds sent a further complaint response. It said it had looked at the extra information Mr C had provided since its December 2020 complaint response letter and it now agreed with some aspects of this complaint. It said that due to a system fault the last term end reminder letter that it sent to Mr C was in September 2019. It apologised for the error and paid a further £75 compensation to Mr C.

Mr C referred the complaint to the Financial Ombudsman Service and it was looked at by one of our Investigators who didn't uphold the complaint. He said the paperwork that was issued to Mr C in 2018, and the correspondence since, all showed the interest only sub-accounts had a term that ended in September 2022 and it was only the main repayment mortgage account that had an extended term until September 2026. He said as the terms had ended Mr C needed to continue to discuss his potential options with the end of term team. Overall he said Lloyds' offer of £225 compensation for misleading information about the process for extending the mortgage term and not sending mortgage review letters after 2019 was fair.

Mr C didn't agree and so the case has been passed to me to decide.

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 trust Mr C won't take it as a discourtesy that I've condensed his complaint in the way that I have. 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 not considered it but because I don't think I need to comment on it in order to reach the right outcome.

I've reviewed Mr C's request to speak to the issuing ombudsman. This would only be necessary if I considered it would be helpful for me to hear what the parties have to say orally – if the written submissions were at all unclear. So it wouldn't provide either of the parties to a complaint with the opportunity to ask questions, nor would it be a dialogue with

me. It would be for my benefit, if there was anything at all in the paperwork which couldn't be clarified in writing. Having reviewed the case file, I consider that all of the material issues are clearly and comprehensively covered. So I'm satisfied that I can fairly decide the case without a conversation with Mr C.

In his response to our Investigator Mr C said *"You may understand the massive impact of your decision but it would appear that you have given no regard to the Consumer Credit Acts and whether £175.00 (not £225 as claimed in your email) is sufficient compensation..."*

I've reviewed the complaint response letters from Lloyds and can confirm it offered £225 compensation, not £175 as Mr C has said; £150 was paid to Mr C in respect of the November 2022 response, and a further £75 in respect of the January 2023 response. I understand there was a delay in the January 2023 payment being made, but both payments should now have been received by Mr C.

Mr C gave Lloyds two conflicting submissions for what happened in 2018; the first being that the 2018 mortgage offer showed the term was extended to eight years for the full mortgage debt, the second being that only part was extended at that time but that the rest would be extended as just an administrative matter at a later date. And when Mr C referred the complaint to the Financial Ombudsman Service he said that it was in 2016 he was told the term could be extended further at a later date, rather than being told that in 2018 as he had said to Lloyds. I've considered each of these submissions separately.

Mr C has said he only received the first five pages of the 2018 mortgage offer, that is the summary covering letter. He says this says the term is eight years. I agree the covering letter in the section entitled *"Mortgage summary"* does state the mortgage term is eight years, but the letter also says:

- *"The enclosed mortgage illustration also forms part of this offer letter."*
- *"Our agreement is made up of this offer letter (including the enclosed mortgage illustration), mortgage conditions and the mortgage deed."*
- *"The mortgage illustration sets out many of the key terms of your mortgage loan including the loan amount, interest rate(s) and any early repayment charges. You should compare the mortgage illustration given to you before you applied for this mortgage loan with the illustration included in this offer, to see how the details may have changed."*
- ***"This is just a summary and you should read your illustration for all the details."***
- ***"If you decide not to proceed, the Mortgage Illustration section 'Interest rate and other costs' details the fees which are not refundable. You may also have to pay other fees which have been incurred."***

So it was clear that the offer wasn't just the five page covering letter, but there was also a mortgage illustration enclosed. Mr C has said he didn't receive that part, but these weren't two separate documents that were separately printed and both had to be put in the envelope, it was one thirteen-page document that was printed – the first part being five pages and the second part a further eight pages (the six page illustration and the two page supplementary information section).

Whilst it is possible that Lloyds somehow managed to have separated out the offer document so that only half was sent to Mr C, that doesn't seem the most likely option on balance. And Mr C, upon receiving what is clearly just a covering letter as it mentions an enclosure which he says wasn't there and doesn't provide specific details about the revised

mortgage contract he was entering into, didn't contact Lloyds to ask where the rest of the document was.

The covering letter doesn't mention the fixed interest rate product Mr C was moving onto, or what his monthly payments were going to be and it is unlikely he was willing to agree to changes to his mortgage contract without seeing that information in the mortgage offer document.

On balance I'm satisfied it is more likely than not that the illustration was included with the mortgage offer covering letter in 2018.

Mr C has also said that his credit file information shows a mortgage term ending in 2026, but as Lloyds has explained that is the same as the mortgage summary in that the last of the sub-accounts ends in 2026 therefore that is the overall mortgage end date. That doesn't mean individual sub-accounts can't (and don't) finish earlier than that. Lloyds reports one overall mortgage to the credit reference agencies (not multiple sub-accounts), which means it reports one total balance, one total monthly payment and the term will be the longest term applicable across all the sub-accounts. That is entirely normal and as I would expect; it doesn't mean all the sub-accounts had that same end date.

Unfortunately despite searches under all the phone numbers Mr C has provided Lloyds has been unable to locate a copy of the 2018 call, so I've been unable to listen to that to hear what was discussed.

Mr C has said he was told his interest only sub-account terms would be extended later in the year and it was just an administrative process, and Lloyds has accepted what Mr C said happened on that and paid £150 compensation for misleading Mr C.

This is what we call a misrepresentation; that is, Mr C says Lloyds gave incorrect information to him about the process for a later term extension for the interest only sub-accounts. When we're looking at complaints about misrepresentations we consider the appropriate remedy is to place the consumer in the position they would be in if the incorrect information hadn't been given. We don't put them in the position they would be in if the misinformation had been correct (that is, Mr C's interest only sub-accounts could be extended to September 2026 without any application process and eligibility and underwriting checks).

Mr C is already back in the position he would have been in had he been told the correct information in 2016 or in 2018, as that information was given to him in 2022 and he was also issued with a letter in October 2019 and four annual mortgage statements between 2019 and 2022 that showed the interest only sub-account term end dates. For that reason, there are no grounds for me to order Lloyds to do anything further in respect of this issue and I'm satisfied the £150 already paid for this issue is fair and reasonable.

Mr C was sent a letter in October 2019 that set out the term end dates for the individual sub-accounts in a table as I've set out earlier in this decision.

Lloyds also sent annual mortgage statements in January each year. These had a section entitled “*Helping you review your interest-only loan*” which said:

“With an interest-only loan because the monthly payment pays only the interest charges on your loan, you need to make sure you can pay us the lump-sum when it's due.

As your mortgage is made up of more than one part you'll need to check you have the lump-sum needed to pay the balance of each interest-only part when it's due. To make this easier we've summarised your interest-only parts of your loan below, the remaining term and the current balance.”

In every annual mortgage statement there was a separate sub-statement for each of the sub-accounts, and again these all showed the remaining terms.

The January 2019 statement said the remaining term for all the interest only sub-accounts was three years and nine months, and the repayment sub-account (sub-account 5) the remaining term was seven years and nine months.

The January 2020 statement said the remaining term for all the interest only sub-accounts was two years and nine months, and the repayment sub-account (sub-account 5) the remaining term was six years and nine months.

The January 2021 statement said the remaining term for all the interest only sub-accounts was one year and nine months, and the repayment sub-account (sub-account 5) the remaining term was five years and nine months.

The January 2022 statement said the remaining term for all the interest only sub-accounts was nine months, and the repayment sub-account (sub-account 5) the remaining term was four years and nine months.

Mr C says that he didn't receive the October 2019 letter with the table I've set out previously, nor all the annual statements during the pandemic. It seems unlikely that the October 2019 letter and the four annual mortgage statements between 2019 and 2022 all failed to be delivered, and receiving just one of those would have been enough to show Mr C that the term on his interest only sub-accounts ended in September 2022.

Lloyds said that due to a system fault the last term end reminder letter that it sent to Mr C was in 2019. It apologised for the error in not sending any more after that date and paid £75 compensation to Mr C for its error. Having considered everything very carefully I don't think the fact those letters weren't issued alters the overall outcome here. That's because I'm satisfied Mr C was already on notice, through the 2018 mortgage offer, the October 2019 letter, and the four annual mortgage statements issued between January 2019 and January 2022, that his interest only sub-account terms would end in September 2022. I'm satisfied the apology Lloyds has given, plus the £75 compensation it has paid, is sufficient for that error.

Mr C has said that if he hadn't phoned Lloyds in September 2022 for a rate change the issue wouldn't have come to light. We simply can't say one way or the other what would have happened if Mr C hadn't contacted Lloyds, but I don't need to know that as it doesn't change things. The fact is Mr C did contact Lloyds and his interest only sub-account terms did end in September 2022.

Mr C is concerned that his payments on the expired sub-accounts haven't increased in line with base rate, saying he is able and willing to pay the increased payments and he's not being treated fairly as Lloyds won't tell him what the increased figure he needs to pay is.

But the sub-account terms have ended, so the amount Mr C needs to pay is the entire amount owing under those sub-accounts, not an increased monthly payment. If Mr C is concerned about his mortgage debt increasing as base rate increases, then he is free to make higher payments as far as his affordability allows him to do, but Lloyds won't give him revised monthly payment figures because it hasn't agreed that Mr C can continue to make monthly payments, rather than repay the money that is now overdue.

Lloyds has said his payment amount was frozen on those sub-accounts at the level it was when the term ended on them. I understand that as long as Mr C continues to make that level of payment (that is, the amount that was due each month on the interest only sub-accounts at the time the terms ended plus his repayment sub-account monthly payment) then arrears information won't be reported to the credit reference agencies, but Lloyds isn't going to recalculate the monthly payments for sub-accounts that should already have been repaid. I don't agree that is treating Mr C unfairly. As I say, he can make higher payments of his choosing if he wants to do so, but Lloyds doesn't have to tell Mr C how much he would be paying each month at this point if his sub-account terms hadn't ended.

It is my understanding that Lloyds has been unable to offer any solutions to Mr C. He asked about adding his wife but I understand that wouldn't change things if Mr C remained on the mortgage, and a switch to repayment with a term extension to the longest term allowed (to match sub-account 5) would lead to contractual payments of over £10,000 a month.

Mr C has said he wants the terms extended with the sub-accounts remaining on an interest only basis, but he is already beyond the maximum age Lloyds allows for interest only borrowing, and he has already extended the sub-account terms once in 2016 as he wasn't ready to repay them at that time. We're now over a year past when that extended term ended in September 2022 and they're still unpaid.

Since 2016 Mr C has told Lloyds about the means he has to repay this mortgage. The notes indicate that in 2016 Mr C said he had around £700,000 in bonds and ISAs, plus a rental property, and in September 2022 the notes indicate he said he had a SIPP worth around £1,000,000 that he could access at that time, but didn't want to.

I can see that Lloyds has understandable concerns that even if it did agree to extend the terms to September 2026 on an interest only basis that the same would happen then, with Mr C not being ready to repay the debt.

Mr C has said that he made several very important financial decisions since 2018 on the understanding his interest only borrowing wouldn't fall due until 2026, but for all the reasons I've explained I think everything Lloyds sent to Mr C was clear that the terms ended in 2022 so I can't hold Lloyds liable for any decisions Mr C made, nor would that be a reason for me to say Lloyds should set aside its normal process, procedures and policy and grant Mr C an interest only term extension until September 2026.

I'm satisfied Lloyds has fairly considered the options available so far and so I don't uphold a complaint about that. I understand there are still some other possibilities to fully explore, such as a retirement interest only mortgage or an equity release mortgage and that Mr C is speaking to an independent mortgage broker about his options. Now I've issued this decision as the final stage of the complaint process I would urge Mr C to speak to Lloyds as a priority as the outstanding balance held across those sub-accounts is overdue.

Whilst I've a great deal of sympathy for the position Mr C found himself in, I don't think Lloyds has acted unreasonably and so I can't uphold this complaint and order Lloyds to take any particular course of action however much Mr C may want me to

My final decision

I don't uphold this complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 18 April 2024.

Julia Meadows
Ombudsman