

The complaint

Mr L and Mr M are unhappy that Clydesdale Bank Plc won't allow them to switch their mortgage to interest only.

What happened

Mr L and Mr M took out a residential mortgage with Clydesdale Bank Plc (Clydesdale) in 2013. They borrowed around £340,000 over a 25 year term. The mortgage began as interest only for the first three years, after which it would switch to repayment for the remainder of the term.

The interest rate on the mortgage was fixed for the first three years. At the end of that initial period, Mr L and Mr M re-mortgaged over the same initial term (so the mortgage had just under 22 years left to run). The mortgage was on a repayment basis and the interest rate was fixed for the first two years.

In 2018 (at the end of the two year fixed period), Mr L and Mr M took a new interest rate product, with the interest fixed for the next five years.

In 2020, Mr L and Mr M successfully applied for six months' worth of payment holidays under the arrangements relating to Covid 19. They continued to experience financial difficulties and Clydesdale agreed for the mortgage to temporarily switch to interest only as a forbearance concession. This arrangement ran for around 18 months.

In 2022, Mr L and Mr M complained to Clydesdale after it had turned down their request to switch their mortgage to interest only on a permanent basis. Clydesdale upheld the complaint relating to a number of service failings and it paid Mr L and Mr M £200 as an apology. However, Clydesdale maintained its stance in terms of the request to switch to interest only, saying that Mr L and Mr M didn't meet its lending criteria.

Mr L and Mr M referred their concerns to the Financial Ombudsman Service. An investigator here said they didn't think that Clydesdale had acted unfairly when declining the request to switch the mortgage to interest only. They also said they thought the £200 offered in relation to the service issues wasn't unreasonable.

Mr L and Mr M remained unhappy and asked for the case to be escalated to an Ombudsman. I asked the investigator to share some provisional thoughts with both parties, as follows:

"The Ombudsman is currently minded to agree that Clydesdale Bank hasn't treated Mr L and Mr M unfairly in not agreeing to change the mortgage contract to interest only on a permanent basis. However, the Ombudsman currently thinks that Clydesdale should pay a higher figure of compensation, given the extent and nature of the service issues and the impact of these on Mr L and Mr M.

Mr L and Mr M's request for the mortgage to permanently switch to interest only

The Ombudsman is of the view that a lender switching a mortgage to interest only as forbearance is meant to be a short measure. Clydesdale had offered Mr L and Mr M this facility as a forbearance measure due to financial difficulties they experienced during and after Covid.

Mr L and Mr M's request to permanently change the mortgage to interest only falls outside of forbearance and it is reasonable for Clydesdale to have treated this as a completely new application and to consider the request against its lending criteria.

The Ombudsman appreciates Mr L and Mr M's view that they have considerable equity in the property and that selling the property at the end of the term (or sooner) represents a viable repayment strategy. However, on the basis that Mr L and Mr M didn't meet Clydesdale's lending criteria, the Ombudsman doesn't think it was unreasonable or unfair for Clydesdale to decline the request. From the information on file, the Ombudsman considers that Clydesdale has tried to help Mr L and Mr M, including by offering extensions to the monthly interest only switches, to give Mr L and Mr M time to decide their best way forwards.

Service issues and compensation

However, notwithstanding this, the Ombudsman can see that Mr L and Mr M have raised a number of service related issues and that, in its final response letter, Clydesdale accepted that quite a few things didn't go as they should. Given the extent and nature of the issues raised and taking into account that Mr L and Mr M are vulnerable due to health and other reasons, the Ombudsman currently thinks that the award for distress and inconvenience should be increased to £400 – as this is more reflective of the impact of the issues on Mr L and Mr M. On the basis that the Ombudsman understands £200 has already been paid, this would mean Clydesdale paying an additional £200 in compensation."

I asked both parties to provide any further submissions by 9 October 2022. Clydesdale responded to say that it was willing to pay a further £200 to resolve matters.

Mr L and Mr M responded to say they still couldn't believe a switch to interest only wasn't possible. They said they had shown they could afford to meet the monthly interest only payments and didn't think that them not meeting one part of the lending criteria should lead to them needing to sell their family home in difficult circumstances. They also said they have substantial equity in the property such that they easily meet Clydesdale's maximum loan to value (LTV) criteria for an interest only mortgage. They asked for someone at Clydesdale to look at their case on an individual basis and apply both financial and common sense.

The investigator acknowledged Mr L and Mr M's comments and re-iterated that the Ombudsman's review is the final stage in our process, but that Mr L and Mr M were free to engage Clydesdale further if they wished.

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.

Having done so, I have reached the same outcome as that contained within the provisional thoughts I shared with both parties. I appreciate this will come as a disappointment to Mr L and Mr M and I also acknowledge the difficult circumstances they have been facing.

Before I explain why, I want to set out my role as an Ombudsman. It isn't to address every single point that's been made to date. Instead, it's to decide what's fair and reasonable given the circumstances of this complaint. And for that reason, I'm only going to refer to what I think are the most salient points when I set out my conclusions and my reasons for reaching them. But, having read all of the submissions from both sides in full, I will continue to keep in mind all of the points that have been made, insofar as they relate to this complaint, when doing that.

As set out in my provisional findings (which form part of this final decision) where a lender agrees to switch an account to interest only as a forbearance, this is meant to be a short term measure.

The crux of Mr L and Mr M's position is that they cannot see that Clydesdale's decision to not allow them to switch to interest only permanently is fair, given their circumstances. They point to the fact they've shown they can afford the monthly interest only payments and that they meet the majority of Clydesdale's interest only criteria, including in relation to LTV and property value.

I do understand Mr L and Mr M's perspective. However, it is not disputed that they do not meet all of Clydesdale's interest only lending criteria. I'm also mindful that Mr L and Mr M aren't being treated differently to any other customers in their position.

With this in mind, I still find that Clydesdale's decision to not allow them to switch the mortgage to interest only permanently isn't unfair or unreasonable.

However, given the extent and nature of the service issues raised by Mr L and Mr M and taking into account that they are vulnerable due to health and other reasons, I still find that the award for distress and inconvenience should be increased to £400 – as this is more reflective of the impact of the issues on Mr L and Mr M and in line with our general approach to compensation awards.

My final decision

My final decision is that I uphold Mr L and Mr M's complaint about Clydesdale Bank Plc in part. On the basis that I understand Mr L and Mr M have already been paid £200, I direct Clydesdale Bank Plc to pay them an additional £200 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L and Mr M to accept or reject my decision before 10 November 2023.

Ben Brewer
Ombudsman