

The complaint

Miss H and Mr S complain that Handelsbanken plc (HB) didn't allow them to capitalise their mortgage arrears, which arose during a period of forbearance. Nor did it allow them to apply for a fixed rate mortgage product, and it put them under pressure to sell their investment properties to avoid losing their home and to repay the arrears on their mortgage.

What happened

Miss H and Mr S had a repayment mortgage with HB. In November 2018, at Miss H and Mr S's request, HB agreed that they could make monthly 'interest only' repayments for a period of 12-months (a forbearance). The reason behind this was that Miss H had stopped working in order to care for her father.

At this time HB agreed that the capital sums which became due each month, but not paid, would not accrue as arrears. HB agreed that at the conclusion of the forbearance period the monthly payments would be increased slightly to ensure the mortgage was then repaid within the originally agreed term.

As a result of the effects of the Covid-19 pandemic, between March 2020 and November 2021 HB granted further forbearance, and during this period Miss H and Mr S paid £1,000 per month, with the unpaid balance of the contractual monthly payments (cmp) being transferred to an arrears account.

At the conclusion of this period, HB discussed with Miss H and Mr S the mortgage arrears which had built up, and also the difficulty they were experiencing in meeting the cmp due to some employment difficulties. A broad plan was agreed that Miss H and Mr S would sell three of their investment properties. The proceeds from the sale of the first two properties would be used to reduce their unsecured personal liabilities, making it easier to then meet the cmp. The proceeds from the sale of the third property would then be used to repay the outstanding mortgage arrears in full, thus preventing them from having to sell their home.

Miss H and Mr S have said that their preference at this time was to have capitalised the mortgage arrears to allow them to be repaid over the remaining mortgage term. They also said that because they were worried about interest rates rising they asked if they could obtain a new fixed rate mortgage deal, but this was declined. They said HB had said it couldn't capitalise the arrears and therefore couldn't offer a new fixed rate deal because Miss H and Mr S didn't pass its affordability assessment as their gross annual income was insufficient.

After Miss H and Mr S complained to HB, it said it would capitalise the arrears after all, despite having some concerns regarding the affordability of the mortgage. It did this because in June 2020 it accepted it had indicated that it would operate the forbearance in the same way as the 2018 forbearance. As there were then no longer any arrears, HB said that although it was not obliged to offer a fixed rate product to any customer, given the error it had made regarding the capitalisation of the arrears, and Miss H and Mr S' worries over

rising interest rates, it would be prepared to consider providing them with a fixed rate product. Ultimately Miss H and Mr S obtained such a product and didn't have to sell their third investment property.

Miss H and Mr S were unhappy with HB's final response and so approached this service to see if we could assist in resolving the dispute. Our investigator thought that there had been poor service by HB and it should pay Miss H and Mr S £300 compensation.

Miss H and Mr S didn't agree and asked for the complaint to be passed to an Ombudsman for 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.

I've taken account of both sides' views and I've looked at the issues raised and considered all the available evidence. Where evidence is not complete, I think about what is more likely to have happened in the light of the evidence which is available.

The accepted facts are that in March 2020 HB told Miss H and Mr S that the forbearance they were granting would be on the same terms as that granted in 2018. The significance of this is that when HB then discussed the arrears that had built up at the end of the forbearance period, what it should have told Miss H and Mr S was that the arrears would be capitalised and their cmp would be increasing so that the mortgage would be repaid off within the originally agreed term.

What is clear is that at that time, Miss H and Mr S were experiencing some financial difficulties. The plan they agreed to involved selling two of their investment properties in order to use those proceeds to reduce some personal debt and make the cmp affordable for them. That is sensible. What I must take into account is that at that time the cmp HB and Miss H and Mr S were discussing would have been a lesser amount than the cmp had the arrears been capitalised. So, logically it must follow that had that lower cmp been considered difficult to manage without the need to sell the investment properties, it would have become more so had the arrears at that point been capitalised. This leads me to the conclusion that on the balance of probabilities it was always likely that Miss H and Mr S would have had to sell the first two investment properties in order to manage the increased cmp.

If HB had capitalised the arrears at the conclusion of the forbearance period then that would of course have allowed Miss H and Mr S to apply for a fixed rate product, which they couldn't whilst in arrears. Fortunately, HB have conceded that point, and although they say they were not obliged to offer any customer a fixed rate mortgage product as well as having concerns over affordability, they have gone on to make such an offer which Miss H and Mr S have taken up. There has therefore been no loss to Miss H and Mr S, and they have avoided selling their third investment property too.

I know Miss H and Mr S believe that they have lost three rental properties and £50,000 due to a forced sale, but for the reasons I have given above I don't agree that it was HB's actions which caused them to sell their investment properties.

Putting things right

So, I do agree with our investigator that HB have made errors here and that it would be fair and reasonable for them to compensate Miss H and Mr S. HB have of course mitigated the effect of their errors by allowing Miss H and Mr S to apply for a fixed rate product and capitalising the arrears. This leaves Miss H and Mr S with their stress, frustration and inconvenience experienced through the period prior to HB correcting their error.

I've given this some further thought to assess whether our investigators suggestion of £300 compensation was fair and reasonable. It is important to remember that there is no set figure for compensatory awards, since the facts of each case are different. Ultimately it is an exercise of judgement, looking at all the circumstances and coming to a figure which feels fair, when set against the effect of any failures in service on the person bringing the complaint.

When we make awards of compensation we categorise them and examples of these can be found on our website.

I think the relevant category for this this complaint would be the second category; *'An award .. of up to £300' is usually applicable when an error has caused frustration and annoyance more than you might reasonably expect from day-to-day life, and the impact has been more than just minimal.*

So, although Miss H and Mr S will probably be disappointed with my decision, I intend to recommend HB compensate Miss H and Mr S with £300.

My final decision

My final decision is that Handelsbanken plc should pay Miss H and Mr S £300 in total.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H and Mr S to accept or reject my decision before 25 December 2023.

Jonathan Willis
Ombudsman