DRN-4588230

The complaint

Mr and Mrs C complain that Lloyds Bank PLC unfairly declined to extend the term of their mortgage. They ask for a 10-year extension on a manageable fixed interest rate. They'd ideally like a lifetime mortgage.

What happened

The term of Mr and Mrs C's mortgage expired in May 2022 with an unpaid balance. They asked about an extension and initially Lloyds said it would be possible to extend the term. It then said this wasn't affordable. Lloyds paid £50 for the upset caused by suggesting a term extension would be possible.

Lloyds said it didn't have a solution that's affordable for Mr and Mrs C. It agreed to review the position on a yearly basis until Mrs C reaches 65 years old, when additional options might be available.

Our investigator said Lloyds had enough information about Mr and Mrs C's circumstances in mid-2022 to know that it couldn't offer a mortgage extension. The contractual monthly payments (CMP) weren't affordable for Mr and Mrs C. Our investigator said Lloyds should pay £300 in addition to the £50 already paid for the disappointment caused. Our investigator said she couldn't fairly require Lloyds to offer a term extension when this could put Mr and Mrs C in a worse financial position.

Mrs C said they both have health conditions which have worsened due to the uncertainty with their mortgage. Mrs C finds speaking to Lloyds stressful. Mrs C said if Lloyds had followed mortgage regulations which require it to treat them fairly they'd have been offered a better interest rate and an extended term.

Mrs C said their circumstances had changed. A family member repaid their secured loan from the Department of Work and Pensions (DWP) in mid-2023. Mrs C said they can now manage the monthly mortgage payments and make additional payments to reduce the debt.

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.

Mr and Mrs C are unable to work due to health conditions. The DWP made contributions towards their CMP. This was in the form of a loan secured on the property.

Lloyds assessed affordability in 2022. Its assessment was that Mr and Mrs C couldn't afford to pay the difference between the DWP contribution and the CMP if the mortgage term was extended.

Mr and Mrs C didn't have means to repay the mortgage balance. There's nothing to suggest this would be different after an extension. Mrs C says they'll be able to apply for an equity release product once she's 65 (in about two to three years' time).

Both Mr and Mrs C have health conditions. It's understandable that they want to remain in their home. Mrs C told Lloyds it was difficult for them to sell and move. I appreciate that a long-term extension would mean they wouldn't have any immediate need to worry about or take steps to repay the mortgage. On the other hand, Mr and Mrs C's health conditions are longstanding. From what they've said it's unlikely their health will improve or that it would be easier for them to sell and move after an extension.

Mr and Mrs C want to vary their mortgage contract by extending the term. Rules on mortgage regulation require lenders to assess affordability before agreeing to offer or vary a mortgage. There are limited exceptions to this. One exception is that, subject to certain criteria (which seems to be met here), the variation is in a customer's best interests.

This doesn't mean that Lloyds can't assess affordability or take this into account. It's unlikely to be in a customer's best interests to vary a mortgage if this is unaffordable. And while rules on mortgage regulation require Lloyds to treat Mr and Mrs C fairly this doesn't mean it has to agree to their requests or offer their preferred option.

I think Lloyds considered Mr and Mrs C's request to extend the mortgage term fairly. Lloyds said it was unable to offer an extension that was affordable for Mr and Mrs C. It had no products available that would make the monthly payments affordable. It removed some charges and interest but said this didn't reduce payments to a level that was affordable. It said extending the mortgage would risk it falling into arrears. This could result in re-possession or impact Mr and Mrs C's ability to take out an equity release product. Lloyds said it didn't have a lifetime product it could offer Mr and Mrs C. A team within Lloyds that considers support for vulnerable customers reviewed the matter and the outcome didn't change.

Mr and Mrs C's circumstances are difficult, and their options are limited. Lloyds said it would review the mortgage on a 12-month rolling basis. The 12-month hold (rather than an extension) meant their monthly payments wouldn't be re-calculated (and increased). I appreciate that this isn't Mr and Mrs C's preferred option. But it should mean that Mr and Mrs C can remain in their home until they're able to apply for an equity release product. I think this is fair. I don't think it's fair and reasonable in the circumstances to require Lloyds to offer a term extension or lifetime mortgage to Mr and Mrs C.

Mrs C says their circumstances have changed. She says they can manage the monthly payments and some additional payments to reduce the balance. This is, presumably, without contributions from the DWP as Mrs C says its charge on the property has been removed. Mrs C hasn't said if they've spoken to an independent financial adviser since their circumstances improved. They might want to consider this. And they can consider asking Lloyds if there are options it could offer based on their current circumstances.

Mr and Mrs C will need to discuss the mortgage account with Lloyds when it's reviewed each year, and possibly at other times if they need support. Mrs C finds speaking to Lloyds difficult and stressful. She says her medical condition means it's difficult for her to process information. Mrs C could consider Lloyds' suggestion that she appoints someone to speak to Lloyds on her behalf, or to be with her during calls. This could be a family member or an independent financial adviser. Mrs C (or her representative) can discuss with Lloyds the options for how it communicates with Mr and Mrs C.

Mrs C says they've received letters about interest on the account which they find confusing. This wasn't part of the complaint that was brought to us. Mr and Mrs C should first raise any concerns about these letters with Lloyds.

Putting things right

Mr and Mrs C are worried about their mortgage. I think this worry is for the most part due to the term expiring with an unpaid balance that they can’t repay, not because of an error by Lloyds. But Lloyds suggested in mid-2022 that it could extend the term, when it ought to have known that this was unlikely to be unaffordable. Mr and Mrs C must have been upset and disappointed when they were told this wasn’t possible. I think it’s fair and reasonable for Lloyds to pay compensation of £350 (in total) for the additional upset this caused.

My final decision

My decision is that I uphold this complaint and order Lloyds Bank PLC to pay £300 to Mr and Mrs C (in addition to the £50 it has already paid).

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs C and Mr C to accept or reject my decision before 1 March 2024.

Ruth Stevenson
Ombudsman