

The complaint

Miss B and Mr J's complaint is about their mortgage with Kensington Mortgage Company Limited.

Mr J, who has dealt with the complaint throughout, says that he arranged a product switch with Kensington for a two-year fixed rate on an interest-only basis. However, shortly after taking out the fixed rate Kensington said it was switching the mortgage to capital repayment. Mr J says he has a binding contract with Kensington that says the mortgage is interest-only and that Kensington must honour this.

What happened

Miss B and Mr J have a capital repayment mortgage with Kensington taken out in 2022. It was on a two-year fixed rate that was due to end in March 2024.

In November 2023 Miss B and Mr J temporarily switched their mortgage from capital repayment to interest-only, under the provisions of the Mortgage Charter. This was a six-month concession that was due to expire in April 2024, when the mortgage would revert to capital and interest repayments.

In February 2024 Mr J went online to look at the products that might be available when the two-year fixed rate expired. Because the mortgage was on a temporary interest-only concession, the illustrations he saw online showed payments on an interest-only basis.

Mr J also spoke to Kensington, on 5 and 21 February 2024, and on 27 March 2024. He discussed taking out a new fixed-rate product, and wasn't sure whether this would be in his and Miss B's best interests. Mr J thought that the Bank of England Base Rate might come down, and if he'd tied himself into a fixed rate, he might lose out.

Kensington explained that its shortest interest rate fix was for two years. Kensington also explained that, because Miss B and Mr J were on a six-month interest-only concession, all the product illustrations they'd see would show the mortgage was interest-only. However, Kensington also explained that, once the interest-only concession expired in April 2024, the mortgage would revert to a capital and interest repayment basis. Mr J was told approximately how much the mortgage repayments would be when that happened.

A product switch illustration was issued for a two-year fixed rate. This showed the mortgage was being on an interest-only basis on 27 February 2024 and Miss B and Mr J accepted the offer to take up this product on 12 March 2024. The new rate was due to take effect on 30 April 2024.

On 27 March 2024 Mr J had another telephone conversation with Kensington. He was reminded that the interest-only concession would soon be ending and was given details of what the payments would be when the mortgage reverted to capital and interest. It was at this point that Mr J said he'd been told by Kensington that the mortgage was to be on interest-only for two years. Kensington said this wasn't the case and that Mr J could raise a complaint if he wanted to (which Mr J did). Kensington also said that Mr J could cancel the

product switch if he wanted to, which would have resulted in the mortgage moving onto Kensington's reversionary rate, which was more expensive than the fixed rate.

On 11 April 2024 Kensington wrote to Miss B and Mr J reminding them that their six-month interest-only concession was due to end, and in May 2024 the mortgage reverted to a capital and interest repayment basis.

Kensington didn't uphold Mr J's complaint, so he brought it to our service. An Investigator looked at what had happened. He was satisfied that Kensington had explained in each of the phone calls that the mortgage was on a temporary interest-only concession, and that while the illustrations would show the mortgage as interest-only, the mortgage would revert to a capital repayment mortgage after April 2024 in line with the terms of the concession.

However, the Investigator thought that the illustration for the two-year product switch should have explained, either in the body of the illustration or in a covering letter, that the mortgage would revert to capital and interest after April 2024. But given that Kensington had discussed this on several occasions with Mr J, the Investigator thought Miss B and Mr J would still have gone ahead with the product switch, given that the alternative was that their mortgage would have gone onto a higher reversionary rate once their existing fixed rate came to an end.

The Investigator thought that the product switch illustration showing the mortgage as interest-only would have caused confusion, and he asked Kensington to pay compensation of £100 for this, which Kensington agreed to do.

Mr J disagreed with the Investigator's findings. He said he was told by Kensington that the new product would be on an interest-only basis for two years. Mr J says he has a binding contract from Kensington which confirms this.

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've come to the same conclusion as the Investigator, for broadly the same reasons.

I've listened to all the call recordings provided, and from these I'm satisfied that Kensington did not say to Mr J that his mortgage would be on an interest-only basis for two years. During each call, Kensington clarified that, at the end of the six-month interest-only concession that Miss B and Mr J had been granted under the Mortgage Charter, the mortgage would revert to capital and interest repayment terms.

Mr J was also given details of the approximate monthly payment on capital and interest when he was discussing the product switch with Kensington. I also note that, after they'd received the product switch documentation and accepted it, there was a further telephone conversation between Mr J and Kensington on 27 March 2024.

During that call Kensington explained again that the temporary interest-only period was due to end, and that the mortgage would revert to capital repayment at the end of April 2024. This was information Mr J had also been given *before* he'd agreed to the product switch, and was reminded of again in this call. I'm satisfied Kensington gave Mr J the option of cancelling the product switch, but he decided not to do so, as the reversionary rate was higher than the fixed rate on the product switch.

Given this, I'm not persuaded Mr J was told by Kensington that the mortgage was going to be on an interest-only basis for two years. There is no mention of this by Kensington in the phone calls, other than on 27 March 2024 when Kensington corrected Mr J's misunderstanding of the position.

However, I think the mortgage illustration was likely to have confused Mr J, albeit that he obtained clarification from Kensington after he'd received the illustration that, once the six-month interest-only concession ended, the mortgage would revert to capital and interest.

The mortgage illustration issued in February 2024 was for an interest-only mortgage. That happened because at the time the mortgage was on a temporary six-month interest-only concession, and so the system-generated illustration reflected this. That was incorrect and misleading.

I appreciate it could be difficult for Kensington to make changes to its software to alter its templates where there is a temporary concession in place, particularly as a mortgage illustration has to be in the form prescribed by the regulator. But even if it couldn't make such changes, I think it should have taken other steps to make it clear that the reference to interest-only in the illustration was because of the concession, and that the mortgage would revert to capital repayment once the concession ended – for example, in a covering letter (as I am aware other lenders do).

I can understand why Mr J was confused by the document which appeared to contradict what he'd been told on the calls. But I'm also satisfied that he had been warned in advance that he would receive an illustration showing interest-only but that the mortgage would revert to capital repayment from April. In addition, I'm also satisfied that on 27 March 2024, before the new product took effect, he was given the option to cancel it if on further reflection he didn't want it. I'm also satisfied that during that telephone call, Kensington explained again – as it had done before the illustration was issued – that the mortgage would revert to capital repayment once the six-month concession came to an end.

In all the circumstances, therefore, the evidence is persuasive that Mr J was given sufficient information by Kensington during his telephone conversations with it for him to have known that the mortgage would go back to capital repayment after April 2024. But I think Kensington should have made this clearer in the illustration, because this resulted in confusion, with Mr J receiving an illustration which appeared to conflict with what he'd been told on the telephone about the mortgage reverting to capital repayment.

In the circumstances, I'm not persuaded that Kensington is required to switch the mortgage onto an interest-only basis for two years. This is not something Miss B and Mr J would ever have been eligible for, and the available evidence is persuasive that Mr J was not told by Kensington that the mortgage was being switched to interest-only for two years. In fact, the contrary is the case, with Kensington emphasising during the phone calls that the concession was to end in April 2024.

Putting things right

Overall, I don't think Miss B and Mr J would have done anything differently if there'd been a covering letter with the illustration explaining that the mortgage would go back to capital and interest in April 2024. This was information Mr J already had from his phone conversations with Kensington both before and after the product switch illustration was issued. But I think that, for the confusion caused by Kensington in failing to clarify the position, a payment for distress and inconvenience is justified. I am satisfied that £100 compensation is appropriate in all the circumstances.

Mr J has explained that a capital repayment mortgage is unaffordable. If he and Miss B are experiencing financial difficulty, they should speak to Kensington about this. New rules have recently come into effect giving lenders more options to help borrowers who are struggling with their mortgage repayments, so there may be something that Kensington can do to help Miss B and Mr J if they are unable to keep up with their repayments.

My final decision

My final decision is that Kensington Mortgage Company Limited must pay Miss B and Mr J compensation of £100. I make no other order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B and Mr J to accept or reject my decision before 25 December 2024.

Jan O'Leary
Ombudsman