

The complaint

Mr and Mrs P complain that Santander UK Plc didn't tell them that entering a reduced payment plan would restrict their choice of new interest rate products. They ask that Santander allows them to take out a product from its usual range.

What happened

Mr P contacted Santander in March 2023. Mrs P was about to take leave from work and he wanted to discuss their options while their income was reduced. Santander agreed they could make reduced payments for four months and then make overpayments for four months to bring the account up to date.

Mr and Mrs P's interest rate product was due to expire in December 2023. Mr P asked if the reduced payment plan would affect them taking out a new product. Santander said they'd need to repay the arrears before applying for a new product.

When Mr and Mrs P applied for a new product, Santander said they were restricted to a single product because of the recent arrears. The arrangement was reported on Mr and Mrs P's credit files, which meant they couldn't re-mortgage elsewhere.

Mr P says Santander didn't explain the impact of entering into the reduced payment arrangement. He says if it had they'd have arranged matters differently.

I sent a provisional decision to the parties explaining why I upheld this complaint. In summary, I said Mr and Mrs P wouldn't have taken out the reduced payment plan if they'd known how this would affect them taking out a new product. They had other options to help them manage their mortgage payments. I said Santander should allow Mr and Mrs P to choose a product from the range that would have been available to them if they hadn't had recent arrears, and re-calculate their account as if the new product had been applied in December 2023. I said Santander should pay £500 for the upset this has caused. Both parties agreed.

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.

Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

Mr P asked Santander for support in March 2023. Mrs P was on maternity leave and Mr P was worried the contractual monthly payment wouldn't be affordable while their income was reduced. A reduced payment arrangement was agreed, which Mr and Mrs P were happy with at the time. However, they say were not told how this would affect them taking out a new product.

Mr and Mrs P's interest rate product was due to expire in December 2023. They contacted Santander to discuss taking out a new product. Santander said because Mr and Mrs P had recent mortgage arrears their choice of product was restricted. Mr P says this will cost them more than if they'd been able to choose from Santander's usual product range. He says they would have made different choices in March 2023 if they'd known this.

I've listened to Mr P's call with Santander in March 2023. Mr P asked about a payment break while their income was reduced, similar to what happened during the Covid-19 pandemic.

Santander said this was no longer on offer but it could offer a reduced payment plan. Mr P asked how this would affect their credit rating. Santander said arrears would be recorded on their credit file, but it would also record the arrangement to show they were working with Santander to manage the account. Santander completed an income and expenditure with Mr P on the call, to check affordability for a reduced payment plan.

Mr P also asked how the reduced payment plan would affect them taking out a new product. Santander said that was a discussion to have with the retentions team, but they would be looking for the mortgage arrears to be cleared before December 2023. Mr P confirmed he was working towards this deadline to clear the arrears.

Santander says the financial support team aren't able to discuss interest rates. I understand that new interest rate products are dealt with by a different team. And Santander did tell Mr P the arrears would affect his credit file. But Mr P asked a specific question about how the reduced payment plan would affect him taking out a new product in December 2023. I think a clear and correct answer to Mr P's question would have included telling him that having arrears would affect his choice of products for a period after they are cleared. The adviser could have told Mr P he didn't know the answer to his question and he'd need to speak to a different team. Instead, Mr P was given the impression that he'd just need to clear the arrears before December 2023.

Mr P says if they'd been given correct information they'd have acted differently. He says they did have other options.

Mr P sent evidence of their savings in March 2023 and in August/September 2023. The reduced payment arrangement reduced Mr and Mrs P's monthly payments by about £500 for four months. Mr and Mrs P had savings available which were more than they'd have needed to make up this difference in their monthly payments.

Mr P says other options included selling assets, borrowing from family and reducing outgoings. For instance, grandparents could have looked after their children to reduce childcare costs. Mr P says they didn't explore this as the reduced payment plan seemed suitable.

In September 2023 Mr and Mrs P switched to interest only payments for six months under the Mortgage Charter. Mr P says this was because of increases in interest rates and the cost of living and Mrs P's reduced income. They thought lower payments for a short term would give them more flexibility to deal with future increases in costs, rather than using savings.

Most likely Mr and Mrs P were under financial pressure, given that Mr P contacted Santander in March 2023 to discuss their options and they switched to interest only payments later in 2023. Mrs P's income was reduced at a time when interest rates and living costs had increased. But Mr and Mrs P managed to repay their arrears – which required higher monthly payments – and have maintained their monthly mortgage payments while on a higher interest rate.

Mr and Mrs P were pro-active in managing their mortgage. Mr P called Santander to see what options were available to make their mortgage payments manageable while their income was temporarily reduced. Mr P specifically asked if the reduced payment arrangement would affect them taking out a new product. And he said he planned to repay the arrears by December 2023 so that they could take out a new product.

I don't think Mr and Mrs P would have taken out the reduced payment plan if they'd known it would restrict their choice of product later that year. And I think they did have other options to help them maintain their mortgage payments.

Putting things right

I think it's fair and reasonable to require Santander to allow Mr and Mrs P to choose a product from the range that would have been available to them in late 2023 if they hadn't had recent arrears. Once they've done so, Santander should re-calculate Mr and Mrs P's account as if the new product had been applied in December 2023.

Mr and Mrs P should tell Santander whether they'd prefer for any overpayments to be used to reduce the mortgage balance or refunded to them.

Mr P says his relationship with Mrs P has broken down. I don't know how this will affect their future plans. If this might lead to them selling the property in the near future, Mr and Mrs P should think carefully before choosing a product with an early repayment charge. They might consider taking independent financial advice before making any decisions.

Mr and Mrs P had to pay more interest and maintain higher monthly payments due to the restricted choice of products. While the additional interest will be refunded when Santander re-works the account, Mr P says this caused them stress and contributed to the breakdown of their relationship. I don't think it's fair to find that Santander is primarily responsible for Mr and Mrs P's finances being under pressure, or for problems in their relationship. But it's likely that its error added to this. I think, in the circumstances, it's fair and reasonable to require Santander to pay £500 for the additional upset and worry its error caused.

My final decision

My decision is that I uphold this complaint and order Santander UK Plc to pay the compensation and take the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P and Mr P to accept or reject my decision before 16 October 2024.

Ruth Stevenson
Ombudsman