

## **The complaint**

Mr B's complaint is about an interest-only mortgage he holds with Lloyds Bank PLC. Mr B believes he's being treated unfairly by Lloyds because he's unable to extend the mortgage term or convert the mortgage to a capital repayment basis because he has consent to let (CTL) for the mortgage.

To settle the complaint, Mr B wants Lloyds to put in place an affordable repayment plan for the remaining balance of the mortgage, and for Lloyds to pay him compensation.

Mr B also complained about other matters going back to 2007. However, he has accepted that we can only consider issues that arose within the six years before the complaint was first raised with Lloyds in October 2023.

## **What happened**

I won't set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat all the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr B being identified.

So for these reasons, I will instead concentrate on giving a brief summary of the complaint, followed by the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

In 2007 Mr B took out an interest-only mortgage with Lloyds to purchase a property. Lloyds first granted CTL in 2014, which was renewed in 2015, 2016 and 2017. In November 2016 Mr B moved to his current address, which is not the property mortgaged to Lloyds.

In her letter of 7 October 2024 the Investigator set out the details of the contact Mr B has had with Lloyds in the last few years, centred around his difficulty meeting the mortgage payments from time to time, and the various arrangements put in place to assist Mr B.

In June 2023 Mr B discussed his options with Lloyds in relation to a term extension, converting the mortgage onto a repayment basis and obtaining a new fixed interest rate product on the mortgage. There was a discussion about fixed rates over two-year and five-year terms, and Mr B was told he'd need to speak to a mortgage adviser.

Emails between Mr B and Lloyds show that he was advised to speak to the CTL team, as there was no record of any renewed CTL after 2018. Mr B contacted the CTL team, and was granted CTL in July 2023. This was renewed in July 2024 for a further 12 months.

However, Mr B discovered that, because he had CTL, he wasn't able to apply for a new product, extend the mortgage term, or convert the mortgage to a capital repayment basis and complained about this. Mr B said that he wasn't able to sell the property, as it was in negative equity. Mr B also said the mortgage had been mis-sold in 2007.

In its final response letter, Lloyds said that it thought Mr B had raised the complaint about mis-sale too late. The bank also explained that, where a customer is experiencing financial difficulties, the bank will look at the available options to see what they can do to help.

However, the situation for customers who are renting out their properties is different. Lloyds said its policy was to add 0.5% to the interest rate for properties with CTL. The bank explained that CTL is intended to be a short-term measure where residential mortgage customers need to vacate their property for a limited period. CTL is not intended for long-term rentals where the property owner has no intention of returning to live in the property.

Lloyds said that if Mr B wasn't intending to live in the property again, he'd need to switch to a buy-to-let (BTL) mortgage, which would then enable him to take a fixed rate. Lloyds said Mr B would need to take his own independent financial advice about this. The bank also provided Mr B with details of agencies that provide free advice to customers in financial difficulties, but overall, the bank didn't uphold the complaint.

Dissatisfied with Lloyds' response, Mr B brought his complaint to our service. An Investigator noted Lloyds hadn't consented to us looking at the mis-sale complaint, due to the time that had elapsed. She explained to Mr B that he'd left it too late to complain about this, and Mr B accepted this.

In relation to the other issues Mr B had complained about, the Investigator looked at what had happened in the six years before the complaint had first been raised. In relation to Mr B not being able to switch to a new interest rate product, convert the mortgage to capital repayment or extend the mortgage term, the Investigator didn't think Lloyds had done anything wrong. She was satisfied that the bank's CTL documentation was quite clear that where CTL is in place, no changes can be made to the mortgage. The Investigator didn't think this was unreasonable.

However, the Investigator noted that Lloyds hadn't always responded to Mr B's queries, and asked the bank to pay compensation of £200 for this. Lloyds agreed, but Mr B didn't accept it. He asked for an Ombudsman to review the complaint.

Mr B said (and I summarise) that he thinks Lloyds CTL policy that has prevented him from switching to a new residential mortgage interest rate product is *"highly restrictive"*. Mr B said that he can't remove the CTL and have the property vacant while he arranges a BTL mortgage. Mr B said that he feels that a deal that both extended the mortgage term and put him on a capital repayment basis would be affordable, and he wants to have the option to do this.

Mr B also said that £200 compensation in no way reflects the stress and financial pressure he has been under as a result of not being able to switch to a new mortgage deal.

### **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.

Before I consider the merits of a complaint, I first have to decide if the complaint falls within our jurisdiction. Mr B had also complained about mis-sale of the mortgage in 2007, saying that an interest-only mortgage without any repayment vehicle wasn't suitable. I'm satisfied this part of the complaint is out of time. Mr B had six years from the date he took out the

mortgage to complain about this, as he knew at the time he had no repayment vehicle in place. As there are no exceptional circumstances to explain the delay, and because Lloyds hasn't consented to us looking at this, Mr B's complaint about mis-sale of the mortgage is out of time. I understand Mr B acknowledges this.

Turning now to the main issue in the complaint – that Mr B isn't able to switch to a new product, extend his mortgage term or convert the mortgage to capital repayment – I've reached the same conclusion as the Investigator, for broadly the same reasons.

The property has been rented out for a number of years, with CTL being granted up until 2018. Mr B didn't renew it after that, but he accepts that the property was tenanted (with occasional voids) from about 2014 onwards.

The crux of this complaint is that Mr B believes it's unfair that he can't change his mortgage while he is on CTL. He wants a new residential mortgage interest rate product, a term extension and to convert the mortgage to capital repayment. Lloyds has explained that, where CTL is in place, no changes can be made to the mortgage.

I'm satisfied that it's made clear in Lloyds' CTL documentation that no changes can be made to a mortgage where CTL is in place. Mr B would therefore have been aware of this when CTL was renewed in July 2023 and July 2024.

Mr B says this policy is unfair, but I disagree. CTL is intended to be a short-term measure, where the borrower returns to live in the property once CTL has expired. However, Mr B has been renting out the property for at least ten years. This is therefore no longer Mr B's home, and he doesn't intend it to be in the future. He is a permanent landlord in relation to this specific property.

Where a property is being rented out on a permanent basis, it is considered a commercial enterprise. Mortgage borrowers who are permanently renting out their properties aren't entitled to the same interest rate products as residential mortgage customers. That's because there is an increased risk to Lloyds where a property is tenanted. And for that reason, BTL mortgages are generally on higher interest rates than residential mortgages. It's therefore not unfair for Lloyds to limit its residential mortgage products to customers who are actually residing in the mortgaged property.

That being said, Mr B's mortgage is currently on Lloyds' Standard Variable Rate (SVR) plus a loading of 0.5% because he has CTL. It's entirely possible that he'd be able to source (through a specialist BTL mortgage broker) a fixed rate that is on a lower rate than SVR+0.5%, with an extended term and on a capital repayment basis. Lloyds can't offer him another product, and the bank has already explained that if Mr B wants a BTL mortgage, he'll need to take independent financial advice. I don't think this is unreasonable in the circumstances.

Overall, I don't think Lloyds has treated Mr B unfairly in relation to not being able to offer him a new product or to change his mortgage term or repayment type. However, I note that Lloyds didn't always respond to Mr B in a timely manner, as a result of which the customer service he received was below the standard I'd expect him to receive. This would have caused Mr B some distress and inconvenience.

### **Putting things right**

For its customer service failings in not replying to Mr B in a timely fashion, I direct the bank to pay Mr B £200 for distress and inconvenience.

**My final decision**

My final decision is that Lloyds Bank UK PLC must pay Mr B £200 compensation. I make no other order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 3 January 2025.

Jan O'Leary  
**Ombudsman**