

The complaint

Mr and Mrs S complain that Santander UK Plc unfairly refused to switch their mortgage onto interest only terms when they were unable to afford monthly payments on a capital repayment basis. Mr S has dealt with the complaint.

Since Mr and Mrs S brought their complaint to us, Santander agreed to extend the mortgage term. This reduced their monthly payments to a level that was affordable. Mr S says Santander should have offered this sooner. He asks that Santander puts them into the position they'd have been in if it had agreed to extend the term in 2023 (by refunding capital and interest) and pays compensation for the stress this has caused.

What happened

Mr and Mrs S have had a mortgage with Santander since 2005. Mr S has been unable to work since April 2022 due to ill health. Mrs S is now his carer and they have young children.

In May 2023 Mr S asked Santander to switch the mortgage onto interest only payments. He said they'd been living on their savings, which had run out. He said they'd applied for universal credit, mortgage support and other benefits and allowances.

Mr and Mrs S were granted the benefits they'd applied for and their mortgage interest is paid by the Department of Work and Pensions (DWP). They wanted to switch to interest only payments as they couldn't afford the monthly payments with the mortgage on a capital repayment basis.

Santander said it couldn't switch the account onto an interest only basis while it was in arrears. Santander agreed payment arrangements. Mr and Mrs S were unhappy with this as their arrears were increasing and they had to contact Santander on a regular basis to renew the payment arrangement. They were worried about losing their home.

In May 2024 Mr and Mrs S cleared their arrears. In July 2024 they applied for a switch to interest only payments. Santander didn't agree. In August 2024 Santander agreed to extend the mortgage term, which made Mr and Mrs S's monthly payments affordable. Santander was able to agree this without an affordability check under the terms of the Mortgage Charter.

In response to Mr and Mrs S's complaint, Santander paid £150 compensation for the upset caused by problems with its service: an agreed arrangement wasn't recorded properly and it was unable to help Mr S make a payment on its banking app.

I sent a provisional decision to the parties explaining why I didn't intend to uphold the complaint. In summary I said Santander had responded fairly when Mr S told it about their financial difficulties in 2023. While I thought Santander should have been more flexible and considered Mr S's request to switch to interest only payments in early 2024, I wasn't certain it would have agreed to this or that Mr and Mrs S would be in a better position if it had. Santander couldn't have agreed an extension under the Mortgage Charter between May 2023 and May 2024 as the mortgage was in arrears (and the Charter wasn't published until

late June 2023).

Mr S didn't agree. He said Santander didn't treat them fairly between May 2023 and August 2024. He said it should have given them all options from May 2023, including those under the Mortgage Charter, that were only available if they cleared the arrears. Instead, he'd spent over a year trying to sort the matter out and their arrears increased.

Mr S said he was given full mortgage advice by Santander in July 2024. He says this was unsuitable and didn't meet regulatory requirements.

Mr S said I hadn't considered the mental, financial and health implications of all this and down-played the situation between April 2023 and August 2024 due to it being resolved. Mr S said this affected his relationship with Mrs S and he suddenly became very unwell in July 2024 which his doctor said was caused by stress. Mr S said Santander had failed to meet regulatory requirements to treat them fairly and give them suitable advice.

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.

First, I must be clear about what I can – and can't – consider here. The complaint brought to us by Mr and Mrs S was that Santander didn't agree to switch their mortgage to interest only payments and instead offered temporary holds and payment arrangements. If I find Santander made an error then I can consider whether it has taken steps which fairly resolve the matter or if it needs to do more to put things right.

I said in my first provisional decision that Santander should have been more flexible in early 2024 when considering Mr and Mrs S's request to switch the mortgage to interest only payments. I said, to resolve the complaint, Santander should give this fair consideration. At about the same time as I issued my first provisional decision, Santander and Mr and Mrs S agreed a term extension under the Mortgage Charter. I issued a second provisional decision saying that Santander didn't need to do more to resolve this complaint.

Mr S says the mortgage advice they were given by Santander in July 2024 was unsuitable and didn't meet regulatory requirements. I think that's a new complaint, different to the one Mr and Mrs S brought to us. This event didn't happen until their complaint with us – the one I'm considering here – was already under consideration. Our rules don't allow me to look into a complaint before it's been raised with the respondent and the respondent has been given an opportunity to respond. I can't fairly look into the advice given in July 2024 as part of this complaint. If Mr S remains concerned about this he might be able to refer a new complaint to us, but he must first raise the matter with Santander.

Should Santander have agreed to switch the account to interest only payments in 2023?

Santander called Mr and Mrs S in mid-May 2023. This was because they'd missed their payment and their account was in arrears. Mr S said he wanted to move onto interest only terms due to his circumstances.

Santander says it doesn't allow customers in financial difficulties to switch to interest only terms (an account being in arrears suggests the customer has financial difficulties). Instead, its financial support team ask the customer for financial information to assess affordability and look into what options are available.

Mr and Mrs S's account was in arrears in May 2023 and they had financial difficulties. I think

it was fair for Santander to refer them to its financial support team, to see what options were available.

Mr S says he first contacted Santander in April 2023, before the account fell into arrears. Santander said the first contact was in May 2023. It doesn't change matters if Mr S was in contact with Santander in April 2023 before the account fell into arrears. I think it would have been reasonable for Santander to be concerned that Mr and Mrs S were in, or about to experience, financial difficulties.

Santander said it needed an understanding of Mr and Mrs S's financial position in order to explore what options might be suitable. It says they had unsecured debts and it suggested they talk to the lenders to request minimum payments. It put a hold in place while they did this, so that it could have accurate information about their outgoings. In the circumstances, I think this was fair.

Mr S told Santander in May 2023 that he wasn't able to work at that time due to his health. He said he was unsure about the long-term. In September 2023 Mr S told Santander he'd be back in full time work in December 2023. In November 2023 he said he wouldn't be able to return to work until at least the end of January 2024.

In May 2023 Mr S told Santander they were waiting to hear back about benefit payments, including whether the DWP would cover the mortgage interest. Mr S told Santander the mortgage payments would be affordable once they were receiving the benefits they'd applied for – he said this in mid-2023 and in late 2023.

Based on the information it had, Santander agreed payment arrangements and held recovery action. I think this was fair. The information Santander had suggested Mr and Mrs S's circumstances might change and could even improve. Unfortunately, this wasn't the case. Mr S wasn't able to return to work and their contractual monthly payments remained unaffordable. But Santander didn't know this in 2023. I think it acted fairly based on what it knew about Mr and Mrs S's circumstances at the time.

The Mortgage Charter was published in late June 2023. This allows customers to switch to interest only payments for six months or extend their mortgage term to reduce their monthly payments. These options are only available to customers who are up to date with their payments.

The Mortgage Charter wasn't in effect until late June 2023. By the time it came into effect Mr and Mrs S's mortgage was already in arrears. Their mortgage remained in arrears until May 2024. The options under the Mortgage Charter to switch to interest only payments for six months or to extend their mortgage term weren't available to them until after May 2024.

Mr S says the financial support team should have told him about all options, including those only available if the account was up to date. I don't agree. I think it was fair for Santander to discuss the options that were available to Mr and Mrs S, based on the information they provided.

Mr S says a family member would have given them money to clear the arrears. I don't think Santander would have known this was an option. I think it was reasonable for Santander to assume Mr and Mrs S would have cleared their arrears if they were able to do so. I don't think it would have been fair for Santander to suggest Mr and Mrs S get their account up to date when it was aware they were experiencing financial difficulties.

The Mortgage Charter says that customers in arrears should work with their lender for the support they need. And the right option will depend on the customer's circumstances. For

the reasons I've set out above, I think it was fair for Santander to refer Mr and Mrs S to its financial support team in 2023 and for it to put payment arrangements in place.

Should Santander have agreed to switch the account to interest only payments in 2024?

I think Santander ought fairly to have taken a different approach in early 2024 when Mr and Mrs S again asked about moving onto interest only terms. By this point Mr and Mrs S's situation had become clearer. Mr S told Santander he was unable to work and his circumstances wouldn't change. Mr S also gave Santander information about how they'd clear the arrears and repay an interest only mortgage balance when the term expires.

Santander declined to consider Mr and Mrs S's request further due to the account being in arrears. I'm not persuaded that was fair. Mr and Mrs S are existing customers whose circumstances changed significantly. Their monthly payments weren't affordable and sustainable while the mortgage was on a capital repayment basis. Mortgage interest was paid by the DWP. Mr S told Santander their circumstances were unlikely to change.

I should say here that Santander has to comply with rules of mortgage regulation which require lenders to check affordability before agreeing to offer or vary a mortgage, in most circumstances. For an interest only mortgage this would include checking there's a clearly understood and credible repayment strategy. A repayment strategy that relies on the sale of the property would need to meet additional requirements. Santander says a strategy to repay the balance with a pension would be outside its lending criteria.

I'm not saying here that Santander should have switched the account to interest only terms in February or March 2024. There would have been disadvantages and risks to this and Santander would have needed to consider if this was in Mr and Mrs S's best interests. For instance, although their mortgage interest was paid by the DWP, this is in the form of a loan secured on the property. That will reduce the amount of equity available to Mr and Mrs S when the property is sold. They would have had to repay the balance at the end of the term. But I think Santander ought fairly to have been more flexible when considering Mr and Mrs S's request and explored this with them as a possible option.

Mr S says Santander told him in February 2024 they could switch to interest only terms if they cleared their arrears. Following my provisional decision, Mr S said he was told during a call in March 2024 that Santander would transfer the account to interest only if he got the account up to date.

I think it's more likely that Santander said it couldn't switch the account to interest only payments while they were in arrears. That's not the same as saying it would allow them to switch if they brought the account up to date.

I haven't asked for recordings of these calls as I don't need to do so to reach a fair decision. I have re-read Santander's call records alongside Mr S's comments about what was discussed. I think it's unlikely Santander said it *would* transfer the account to interest only if the arrears were cleared. This is inconsistent with Santander's notes of the calls, its internal policies and rules of mortgage regulation. Also, given that Mr and Mrs S were keen to switch to interest only payments, I think if they'd been told this they'd have gone ahead and cleared their arrears straight away (if they were in fact in a position to do so). They didn't clear the arrears until May 2024.

Even if Mr S was told this, Santander would still have needed to carry out an assessment of their circumstances before agreeing to make changes to the mortgage. It's unfortunate if there was some misunderstanding which led to Mr and Mrs S being disappointed. But I don't think any such misunderstanding would make it reasonable for me to require Santander to

change the mortgage to interest-only terms on the basis of this conversation, without an assessment of whether such a change would be in Mr and Mrs S's best interests.

Mr and Mrs S cleared their arrears in mid-May 2024. I can't fairly find that Santander should have pro-actively contacted them to offer options to make changes to the mortgage – which at this point wasn't in arrears. In July 2024 Mr and Mrs S applied to switch to interest only payments. Santander contacted Mr S in mid-August 2024 to tell him the application was declined. It told him about the option to switch to interest only payments for six months under the Mortgage Charter. Mr S says he looked up the Mortgage Charter and saw there was an option to extend the mortgage term. He applied for this in mid-August 2024, and Santander put the extension in place shortly after.

As I said, if Mr and Mrs S have concerns about the mortgage advice they were given in July 2024 they should raise this with Santander.

Does Santander need to do more to put matters right?

It's taken a long time for Mr and Mrs S and Santander to reach a solution that suits both parties. I appreciate how worried Mr and Mrs S were during this time.

Mr S suddenly became very ill in 2022. He was unable to work and Mr and Mrs S used up their savings and were worried about their financial situation. Mr and Mrs S's lives and financial situation changed significantly, and this must have been a difficult and stressful time. However this isn't something I can fairly require Santander to pay compensation for. I can only fairly require Santander to pay compensation for any additional upset, inconvenience and stress caused by it making errors or treating Mr and Mrs S unfairly.

I'm sorry that Mr S is disappointed. But, as I've said, I don't think Santander treated Mr and Mrs S unfairly in 2023, given what it knew about their circumstances.

The option to extend the mortgage term under the Mortgage Charter wasn't available to Mr and Mrs S while their account was in arrears (May 2023 to May 2024) or before the Mortgage Charter was introduced in late June 2023. And while I think Santander should have been more flexible in 2024 when Mr and Mrs S asked about switching to interest only payments I can't fairly find that it would – or should – certainly have agreed to this, or that Mr and Mrs S would now be in a better position if it had.

It follows that I don't think it's fair and reasonable in the circumstances to require Santander to backdate the effect of the term extension or pay further compensation.

Santander says there were problems with its service. A payment arrangement wasn't recorded properly. And it was unable to help Mr S make a payment on its banking app. It paid £150. I think, for the additional upset these errors caused, this is fair.

My final decision

My decision is that I do not uphold this complaint. That's because I think the steps taken by Santander UK Plc are fair and reasonable to resolve this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr S to accept or reject my decision before 11 January 2025.

Ruth Stevenson
Ombudsman