

The complaint

This complaint is about an interest-only mortgage Mr P holds with Lloyds Bank PLC. Mr P is unhappy that Lloyds refused to extend the mortgage term. The mortgage has expired and Mr P says Lloyds is trying to take his home from him rather than agree to one of his proposed solutions.

What happened

I do not need to 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 the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr P being identified.

So for these reasons, I will instead concentrate on giving a brief summary of the complaint, rounding the figures, 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.

Mr P's mortgage is made up of two components, a main mortgage of around £750,000 taken out in 2003 and a further advance of £125,000 taken in 2009. Both are interest-only, and were due to be repaid in July and October 2023 respectively. Mr P had a dialogue with Lloyds in 2017 when it contacted him to check on his plans for repaying the debt in 2023. It was noted at the time that Mr P's repayment strategy was the disposal of other property he owned.

Mr P's plans were disrupted by a combination of his wife's untimely death in 2018 (he had to dispose of some property in order to settle a debt she owed at the time of her death) and the COVID pandemic that began in 2020. A few months before the mortgage terms were due to expire, Mr P asked Lloyds for a term extension. Lloyds asked Mr P for an income and expenditure analysis; Mr P provided this along with information about his other property holdings. On reviewing the information, Lloyds declined his request. But it agreed a grace period to 31 January 2024 to allow Mr P to complete a sale of one of his other properties.

Lloyds wrote to Mr P for updates in February and March 2024. Mr P called to say he was still trying to sell, and a further grace period was agreed until 31 August 2024. The deadline came and went, again without a sale or an update. On 5 September 2024, Lloyds wrote to say it had arranged a visit from a field agent, prompting a complaint from Mr P that it was acting threateningly. Lloyds issued a final response on 7 November 2024 apologising for not having cancelled the field agent appointment, but otherwise rejected the complaint.

When the case came to us, our investigator didn't think Lloyds had treated Mr P unfairly; he has asked for the complaint to be referred to an ombudsman for review.

What I've decided – and why

I'll start with some general observations. We're not the regulator of financial businesses, and we don't "police" their internal processes or how they operate generally. That's the job of the

Financial Conduct Authority (FCA). We deal with individual disputes between businesses and their customers. In doing that, we work within the rules of the ombudsman service and the remit those rules give us. We don't replicate the work of the courts.

We're impartial, and we don't take either side's instructions on how we investigate a complaint. We conduct our investigations and reach our conclusions without interference from anyone else.

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

My starting point here is that Mr P borrowed money from Lloyds and under the terms of his original agreements with Lloyds, was due to repay the money in July and October 2023 respectively. No one is entitled to borrow money; and even when they've borrowed before, they're not automatically entitled to more time to repay the debt after it has fallen due. But a lender must treat customers fairly. In the context of an application for a term extension, that means assessing it fairly in accordance with the bank's lending criteria and being mindful of what mortgage regulation requires of it. Lenders' criteria are commercially sensitive and not generally made public.

There are regulations in place that have flowed from the Mortgage Market Review (MMR) carried out by the Financial Conduct Authority (FCA) which took place after the financial crash in 2008. This has led to a series of major changes, effective since 2014, in the way residential mortgages are regulated. MMR regulations have brought about requirements for stricter lending assessments, aimed at protecting consumers and encouraging mortgage lenders to act more responsibly.

The FCA recognised though that existing borrowers who wanted to make changes to their mortgages might have difficulties with this if they had passed tests under the old rules but wouldn't under the new ones. So, it introduced certain rules to address this. The rules are contained in the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB). MCOB says a lender doesn't have to carry out an affordability assessment if a borrower wants to vary or replace an existing mortgage and there is no additional borrowing (other than for product fees) and no change to the terms of the mortgage that is material to affordability.

There are also transitional arrangements which say that a lender need not carry out an affordability assessment if:

- the borrower has an existing mortgage taken out before 26 April 2014, and is applying to vary that mortgage or replace it with a new one;
- the application wouldn't involve any additional borrowing except for essential repairs to the property, or to add product fees to the balance;
- there's been no further borrowing (with some exceptions) since 26 April 2014; and
- the proposed transaction is in the borrower's best interests.

So, under this rule, even where a change material to the affordability of the mortgage takes place, the lender can, *if it chooses*, waive an affordability assessment. If the lender decides to carry out an affordability assessment, it shouldn't use that as a reason to decline an application if allowing the application would otherwise be in the customer's best interests. But the lender can take the assessment into account as part of its consideration of best interests.

This means there are two routes that an application for an existing borrower can go down. If there's no change to the terms of the mortgage contract material to affordability, there's no obligation to carry out an affordability assessment at all. And if there is a change to the terms of the mortgage contract material to affordability, a lender could still decide to allow an application without an affordability assessment if doing so would otherwise be in the borrower's best interests.

A term extension where the existing term has already expired is a material change to the mortgage, and so it's reasonable for Lloyds to want to carry out an affordability assessment, and to assess whether the application meets its general lending criteria, including the borrower's age, income and repayment strategy. And whilst the regulations provide that Lloyds can, if it wishes, dispense with an affordability assessment, it isn't obliged to, and here I don't think the wider circumstances were such that it should have. Mr P clearly has the means to repay the mortgage, and he had already been allowed a reasonable grace period to do whatever was necessary to ensure he could remain in the home to which he is evidently very attached.

An affordability assessment was carried out in October 2024 after Mr P provided income and expenditure information. Having considered the information, and after applying the stress test required by the FCA, Lloyds concluded that extending the mortgage term wouldn't be affordable. That's not age-discrimination, as Mr P has suggested. It's an exercise of commercial judgement that Lloyds was reasonably and fairly allowed to make. Also, this was not a marginal call. Based on the information provided, the stress-tested monthly payment exceeded the available income before living expenses. As far as Mr P's best interests are concerned, I'm not sure that extending the term of an interest-only mortgage (the balance of which would not be reducing) that has been assessed as unaffordable is in Mr P's best interests, however much he might think otherwise.

Mr P is unhappy that Lloyds won't consider any of his alternative suggestions; examples include taking a charge over his commercial properties or even a life insurance policy as security. But I wouldn't expect a lender to agree to substitute commercial property as security for a regulated mortgage that is already adequately secured. As far as the life assurance policy is concerned, I understand it is for £500,000, which is substantially less than Mr P owes. There's also the issue of when the funds from such a policy would become available to Lloyds.

As far as the communications are concerned, I don't find Lloyds' letters to have been "horrible" or threatening, as Mr P has indicated. I've no doubt they were unwelcome, but having looked carefully at the content and frequency, they strike me as the actions of a prudent lender mindful of its regulatory obligations.

I said at the outset that I wouldn't be commenting on every single point, and I haven't. I have, as I said I would, confined myself to those matters that I consider have a material effect on the outcome. I can see how strongly Mr P feels. That's a natural, subjective reaction, and entirely understandable in the circumstances. Be that as it may, I have to take a different approach. I'm impartial and I have to look at things objectively. That's what I've done.

That begs the question of what happens next. I don't know what Lloyds' intentions are regarding enforcement of its security over the mortgaged property. But clearly that is something it can consider as a next step. It's important to explain here that lenders will generally agree not to pursue recovery action whilst we look at a complaint, but they don't have to and we can't force them to.

If the Financial Ombudsman Service had that power it would undermine our impartiality between the parties to a complaint. It would also create the potential for consumers to use

our service to bring complaints with the intention of having any legal action put on hold, thereby obstructing businesses that were trying to take action through the courts to recover money legitimately owed by the consumers.

I do not wish to alarm Mr P but I would not want him to be under any misunderstanding that we would tell Lloyds that it must delay recovery action in the event of any new complaint being raised about the mortgage. It is a matter for a court to decide whether it is appropriate to adjourn or suspend any legal action, not this service.

I know this isn't the outcome Mr P wanted. He is faced with the prospect of having to find a significant sum of money to repay his mortgage, but he clearly has the means to do so, by selling some of his commercial assets. This has been his strategy from the outset in 2003, and Lloyds has already given him close to two years' grace in which to do so. If he doesn't do so soon, *and* demonstrate to Lloyds in the meantime that he is doing all he can to expedite a sale, Lloyds could potentially enforce its security over the home he wishes to remain in.

On this latter point, it might help Mr P to have some advice from an independent financial adviser to discuss his options, for example, an equity release mortgage secured on his home to repay the mortgage with Lloyds. Mr P can find details of suitable advisers on the Financial Conduct Authority's website at www.fca.org.uk or alternatively through the Equity Release Council at www.equityreleasecouncil.com.

My final decision

My final decision is that I don't uphold this complaint.

My final decision concludes this service's consideration of this complaint, which means I'll not be engaging in any further discussion of the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 8 July 2025.

Jeff Parrington
Ombudsman