

The complaint

Mr P complains that Lloyds Bank PLC won't extend the term of his interest-only mortgage and that it began legal action to recover the debt after saying it wouldn't do so.

What happened

Mr P took out his interest-only mortgage with Lloyds in 2003. He borrowed £450,000 over a term of 20 years. The term ended in August 2023.

In early 2023 Mr P asked Lloyds for a five-year term extension. He said he planned to sell the property and repay the mortgage at the end of the extended term. Lloyds asked him for information about his income and expenditure. It considered the information Mr P and his daughter on his behalf provided, and said it thought a term extension wouldn't be affordable. It suggested Mr P consider an equity release mortgage.

Mr P said that Lloyds had agreed to put action to recover the mortgage debt on hold as long as he kept making the monthly interest payments. But in August 2024 it instructed solicitors. Mr P made a complaint and stopped making payments to his mortgage.

Lloyds said it had done nothing wrong, it hadn't agreed not to take legal action, and it couldn't extend Mr P's mortgage term. It also said that the complaint Mr P had made about the advice he received when he took out the mortgage was a matter for the independent broker who advised him in 2003.

Mr P has since said that he hasn't been able to get an equity release mortgage or to sell the property, because there's a second charge on the property in favour of a company which dissolved several years ago and he hasn't yet been able to have the charge removed. He has said he can afford the monthly mortgage payments but he stopped paying because Lloyds started legal action, and he can pay the arrears in a lump sum if Lloyds will agree to extend the mortgage term.

Mr P referred his complaint to us. Our Investigator said he didn't think Lloyds had treated Mr P unfairly in the circumstances, and he didn't recommend that the complaint be upheld.

Mr P didn't accept that conclusion and asked for it to be reviewed. He also asked for more time to go through documents and take 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 of all, I note that Mr P has asked for more time to make further submissions, and I've considered everything he's told us about his circumstances. I was sorry to read about his health problems. However, our Investigator extended time for Mr P to respond in recognition of his situation, and it has now been more than three months since the Investigator issued his assessment. The Financial Ombudsman Service is a quick and informal dispute

resolution service, and we must be fair to both businesses and consumers. I'm satisfied that it's not in the interests of either party to delay further, that I have enough information and evidence available to decide this complaint fairly, and that it's appropriate for me now to make a decision on this complaint.

The term of Mr P's mortgage ended in 2023. Mr P had agreed to repay his mortgage at that point, and Lloyds was entitled to expect him to do so. Circumstances can and do change, however, and I would expect Lloyds to have considered Mr P's situation and treated him fairly when he asked for a term extension because he wasn't in a position to repay the mortgage. That's in line with the rules of mortgage regulation and includes considering whether extending the term would be in Mr P's best interests.

Lloyds wasn't required to complete an affordability assessment in order to make its decision. It nevertheless asked Mr P for information about his financial situation. I don't think there was anything wrong in it doing that. It wouldn't after all be in a borrower's best interests to continue with an unaffordable mortgage. The difficulty in Mr P's case is that the mortgage does appear to be unaffordable, even if it were to continue on an interest-only basis and even if Lloyds were to apply the lowest five-year fixed interest rate it has available.

Mr P is retired and has been drawing around £200 a month from a private pension. He told Lloyds that this pension pot will run out soon and he also receives £1,500 a month from two lodgers. He expects to begin drawing a state pension of just over £1,000 a month soon. However, the monthly interest-only mortgage payments in January 2025 were more than £2,600 (not including payment towards the arrears) – more than his monthly income, without taking account of day to day living costs. Mr P had been making the required monthly payments until August 2024, but that's not to say the mortgage could reasonably be considered affordable. I don't think it could.

In Mr P's particular circumstances, I think it was reasonable for Lloyds to conclude that it wouldn't be appropriate to extend the mortgage term. I don't think that doing so would be in Mr P's best interests. Mr P has said he will be ready to sell the property and downsize in five years – but I can't see that selling and moving would be any easier then than it would be now. He has known about the charge in favour of the now dissolved company for many years and has had time to take advice about removing it. And the older he becomes, the more difficult selling and moving might be, bearing in mind his health and the extra mortgage interest he'd have paid in the intervening years. There is also a risk that the value of his home might fall and leave him with negative equity, especially if the mortgage payments take up a large part of his income and he can't afford to keep it in good repair too. While Mr P's property has been valued at considerably more than the outstanding balance on his mortgage, Lloyds has pointed out that there are three other charges secured on it – as well as the charge which Mr P has said he's looking into removing, there are charges in favour of HMRC amounting to more than £600,000.

Lloyds has also said that Mr P is in breach of his mortgage contract with it because he has been letting out multiple rooms in the property without its consent. It has provided copies of recent sales and rental listings which show that the property is currently arranged as a house in multiple occupation (HMO) recently occupied by at least five tenants. I recognise that Mr P has found himself in a difficult position and felt he had no choice but to take in tenants in order to manage financially. But Lloyds agreed to lend him a mortgage on a residential and not a commercial basis, and it's reasonable for it to have concerns about its security when the property is being let in the way it is. I also think it's reasonable for Lloyds to have taken this into account as part of all the circumstances in deciding not to extend the mortgage term.

Mr P has complained about the legal action Lloyds has taken in respect of the mortgage. He has said it told his daughter it wouldn't instruct solicitors if he continued to make the monthly interest payments. I've reviewed Lloyds' calls with Mr P and his daughter and I'm satisfied that it didn't agree to hold off from taking legal action indefinitely if Mr P continued paying. It did agree to put a hold on further action until 22 July 2024, and it did that. Lloyds later put action on hold while it dealt with Mr P's complaint and while the complaint has been under consideration by the Financial Ombudsman Service. It appears that Mr P didn't receive its final response to his complaint in September 2024. Lloyds' records however show that the letter was sent in September – and so the legal action it proceeded with after that wasn't begun while it was still reviewing this complaint.

Mr P has now made a separate complaint to Lloyds that it shouldn't have given him this mortgage in the first place without checking he had a means in place to repay it. He has said this isn't in line with the Financial Conduct Authority's rules about mortgage lending. Lloyds is dealing with that complaint separately and I'm not considering it here. Mr P may be able to refer it to us later, but he should be aware that time limits may apply and the rules around mortgage lending are very different now in comparison to what was place in 2003 and current rules aren't retrospective.

I recognise that Mr P is in a difficult position and this matter has caused and continues to cause him considerable stress and upset. But in all the circumstances and for the reasons I've explained, I don't consider that Lloyds has treated him unfairly. It gave him time to explore his options and I wouldn't expect it to suspend debt recovery action indefinitely.

Possession should be a last resort but, ultimately, a lender is entitled to seek possession of a property if no agreement for repayment is reached. I don't consider that it would be fair or reasonable for me to require Lloyds to suspend action for a further period of time, although it may decide to do so depending on Mr P's current situation. I encourage Mr P to keep in touch with Lloyds about the mortgage and any progress with the property sale or repayment of the mortgage by other means.

My final decision

My final decision is that I don't uphold this complaint. I make no order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 16 July 2025.

Janet Millington
Ombudsman