

## The complaint

Mr and Mrs S complain that Santander UK Plc (Santander) would not give them the option to change to an interest-only mortgage during a period of financial difficulties.

Whilst Mrs S has consented to this Service looking into the complaint, she has confirmed that it is Mr S who has been dealing with the mortgage since they separated in 2020. It is also Mr S who has been dealing with the complaint with this Service. For that reason, I have mainly referred solely to Mr S throughout my decision.

## What happened

Mr and Mrs S took out a mortgage with Santander in April 2019, with a fixed rate of 2.09% until 2 May 2024. Their contractual monthly repayment (CMP) was around £650.

On 22 June 2023, Mr S contacted Santander to inform it that he and Mrs S had separated and that the mortgaged property was on the market to be sold. He asked if the mortgage payments could be deferred or whether he could move to interest-only whilst he was waiting for the property to be sold, as he couldn't afford to make the repayments as well as paying for somewhere else to live. Santander advised that it could not defer the payments but that it could offer a reduced payment plan for the short term once he had completed a budget planner. The agent also transferred him through to the contract variation team in respect of converting to interest-only but explained that he might be transferred back as the reason he wanted to convert was due to financial difficulties.

On 27 June 2023, Mr S contacted Santander again as he had completed the budget planner. It was noted that this showed a deficit of over £350, and Santander agreed that Mr S could make a reduced payment of £296 for the next two months, which the budget planner showed was affordable for him. Further arrangements have been entered into since this, and the account is now in arrears of over £10,000.

Mr S says that, whilst Santander allowed him to enter a payment plan, it refused to give him the option to change to an interest-only mortgage. Mr S says that it should have done this in line with the Mortgage Charter and that this would have improved his financial situation.

Santander says that when Mr S called on 22 June 2023, the Mortgage Charter option of switching to interest-only for six months was not available, as this didn't start until 24 July 2023. Therefore, it says that the arrangement it offered was correct. It says that by the time the Charter had started, Mr and Mrs S's mortgage account was in arrears, therefore the interest-only option could not be offered under the Charter.

Santander also says that it could not offer a full interest-only conversion due to the arrears on the account. It says that the regulator does not expect it to switch a customer to interest-only to mask their financial struggles and that this is why an arrangement is offered when a customer cannot afford their payments.

Our Investigator looked into Mr and Mrs S's complaint and concluded that Santander had not acted fairly. He noted that it had entered the public domain on 26 June 2023 that Santander were signatories of the Charter. Although the Mortgage Charter six-month interest-only concession was not yet available when Mr S initially contacted Santander, the Investigator said that he would still expect lenders to give fair consideration to an interest-only concession before the Charter, bearing in mind the customer's circumstances.

Although Santander had explained why Mr S wasn't able to apply for a permanent switch to interest-only, the Investigator was of the view that Santander hadn't considered a temporary interest-only arrangement as a method of forbearance. Therefore, he found that Santander had not fairly considered Mr S's circumstances when he was enquiring about his options on how to temporarily maintain the mortgage payments while the property was marketed.

The Investigator concluded that as the decline for a change to interest-only was based on the wrongly applied policy, and the timeline for applying the Mortgage Charter was so close, it would have been fair and reasonable for Santander to have applied the support which would have been available under the Charter in this case. He was satisfied that a temporary interest-only arrangement would have been more beneficial than the reduced payment arrangements which were made, and that an interest-only arrangement would have brought Mr S's outgoings down to a more manageable level. Bearing this in mind, the Investigator felt that Santander had not acted reasonably and was of the view that Santander ought to have switched Mr S to interest-only for six months in line with the Mortgage Charter.

In order to put things right, the Investigator recommended that Santander should calculate what had been paid for six months since July 2023 and compare this with what would have been paid had the mortgage been operating as interest-only for this period. It should then refund the difference to Mr S – as he was the one handling the mortgage account – along with simple 8% interest. He also recommended that Santander write to credit reference agencies to request that any negative markers stemming from mortgage arrears for this six-month period. He also recommended that Santander pay Mr S £250 for the distress and inconvenience caused.

Santander disagreed with the Investigator's view, so the case came to me to make a decision. It reiterated that the Mortgage Charter interest-only concession only came into effect on 24 July 2023, so said that it was not able to switch a customer to interest-only prior to this when they were experiencing financial difficulties. Santander said that whilst the interest-only figure would have been lower than the amount of £296 initially set on the arrangement, the budget planner showed that this arrangement was manageable. Therefore, it said that there would be little point in putting a customer on the lowest payment possible as it would want to avoid the arrears escalating to the extent that they get out of hand.

I set out in my provisional decision dated 8 May 2025 (reproduced below) why I was minded not to uphold this complaint, as I did not find that Santander had acted unreasonably in the circumstances of this case.

I invited both parties to let me have any further comments and evidence by 22 May 2025. Santander responded to say that it agreed with the provisional decision. Mr S has responded disagreeing with the provisional decision, for reasons which I have set out below.

### **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.

Having considered the responses to my provisional decision dated 8 May 2025, I remain of the view that Santander has acted fairly in the circumstances of this case.

In my provisional decision I set out the following:

“As set out above, Mr S initially called Santander on 22 June 2023 to explain that he would be unable to afford the mortgage going forward whilst he was awaiting the sale of the mortgaged property. He was told that Santander could not offer deferred payments and was unable to change the mortgage to interest-only. He was asked to complete a budget planner with a view to Santander offering a reduced repayment plan.

Mr S called Santander back on 27 June 2023 once he had completed the budget planner. During this call, Mr S said that someone had told him about the possibility of a mortgage holiday which he would rather do. The agent told him that a mortgage holiday was not currently available and referred to a government announcement about things coming in the future but said this was not something which could be done now.

During the call, the agent went through the budget planner, which showed a deficit of £358.36. This meant that a payment of £296 would be affordable (essentially, the CMP less the deficit). The agent suggested to Mr S that he could look at paying more than that if he wanted to and Mr S said that he couldn't afford to pay more. He confirmed that nothing else on his budget was changing, other than the property being sold. The agent explained that the remaining £358 of the monthly repayment would be arrears and Mr S confirmed that he was aware of this but that it was the only option.

Mr S has made reference to the Mortgage Charter and the fact that Santander should have allowed him to switch his mortgage from repayment to interest-only in line with the Charter. The Mortgage Charter was published in June 2023 and set out that those signing up to the Charter would permit a customer who was up to date with their mortgage payments to switch to interest-only payments for six months.

Whilst Santander had signed up to the Charter, this part of the Charter was not in place when Mr S initially contacted Santander on 22 June 2023, nor when he called again on 27 June 2023. By the time this part of the Charter was in place – on 24 July 2023 – Mr S's mortgage account was in arrears. As one of the criteria for applying this concession under the Charter was that mortgage payments needed to be up to date, Mr S would not have been eligible to receive this concession under the Charter.

Whilst I note the short period of time between Mr S requesting a temporary switch to interest-only and the Charter coming into force, I disagree that Santander ought to have applied the support which would have been available under the Charter prior to it coming into force. And I don't think it was unreasonable of Santander not to offer a concession under the Charter, when this was not yet in force.

Notwithstanding this, although the Charter had not yet come into force, Santander was still under an obligation to act fairly and offer forbearance to customers who were in financial difficulties.

Where a customer is in financial difficulties, we'd expect a lender to treat consumers who are, or are expecting to be, in financial difficulties fairly, discussing their circumstances with them and trying to get the mortgage back on track. The Mortgages and Home Finance: Conduct of Business Sourcebook (known as MCOB) sets out at Rule 13.3 what lenders are required to do to help borrowers where there is a payment shortfall. It would usually be reasonable for a lender to consider ways to resolve a situation where a borrower is in financial difficulties, having regard to their individual circumstances. Such measures might include a reduced payment arrangement – which would include agreeing to collect only the interest and not the capital, or some other sum.

Balanced against that is the lender's obligation to ensure that any arrangement is affordable and sustainable. The requirement for a lender to try to help a borrower doesn't mean that a consumer should be given whatever they ask for, but rather the lender needs to determine if it can put forward any proposals that will actually help the consumer and not just postpone the inevitable if the mortgage isn't and won't be affordable going forward.

When Mr S contacted Santander in June 2023 as he was going through a period of financial difficulties, it asked him to complete a budget planner to determine what

would be affordable for him at that time. As this showed a deficit of £358 based on him making the full CMP, it agreed to an arrangement which meant that the CMP was reduced by this amount to £296 a month. Therefore, based on the budget planner that Mr S had completed, this amount was affordable for him.

The amount required to pay the interest as of June 2023 would have been around £175 a month. The payment would have remained at around this figure until June 2024, when the payment would have risen to around £640 as the fixed rate period ended and the account went on to the standard variable rate (SVR).

I understand that Mr S was going through a difficult time and that the pressure of having to pay the mortgage in addition to the cost of temporary accommodation would have made things worse for him. So I'd expect Santander to treat him fairly and show forbearance in such a situation, and I'm satisfied it did that. It allowed him to make reduced payments based on what he said was affordable for him. It was also willing to discuss further payment arrangements beyond that; I note that Santander later agreed a payment arrangement in October 2023 for a reduced amount of £170 a month, as this was what affordable for Mr S at that time.

Whilst I acknowledge that paying just the interest would have meant that Mr S was paying less than the amount agreed under the arrangement, I don't think that it was unfair that Santander would not agree to a period of interest-only at that time. Mr S was not automatically entitled to this and there was a risk that it could make his situation worse in the long term, as it would have meant that he was getting further into arrears, which would have meant paying more interest overall.

A temporary interest-only period would also have meant that the account went into arrears and would be shown on Mr and Mrs S's credit files as an arrangement, so there would have been no benefit to this over the reduced payment which was agreed in terms of these factors. As set out above, Santander agreed to Mr S making a reduced payment which was affordable for him and I think that this was in his best interests in the circumstances.

Santander has provided a copy of its policy in respect of converting a mortgage from repayment to interest-only. It had said that any application for a full interest-only conversion by Mr and Mrs S would have been declined due to the fact that there were financial difficulties (and subsequently arrears on the account) and I can see that this appears to be in line with the policy.

Whilst it is clear that this policy relates to a permanent conversion, as opposed to a temporary change to interest-only as a forbearance measure, I don't think it's unreasonable that Santander wouldn't permanently convert the mortgage to interest-only terms. There are specific rules around this – including verification of repayment strategy – and Santander is entitled to have its own lending criteria about when it's willing to offer interest-only mortgages.

I know my decision will come as a disappointment to Mr S, but I can't say that Santander has acted unreasonably in the circumstances of this case, and I am minded not to uphold this complaint."

As set out above, Santander has made no further representations in response to the provisional decision.

Mr S has responded disagreeing with the provisional decision, as he says that he was only in a very small amount of arrears and had only missed one monthly payment by the time the Mortgage Charter was in force. He says that he would rather have borrowed money to clear the arrears and been offered the Mortgage Charter at that point, as this would have meant

that there were less arrears and would not have had such a negative effect on his credit rating.

I have considered what Mr S has said, but this does not change my view. As set out in my provisional decision, during the conversations with Santander in June 2023, Mr S confirmed that he was unable to afford to pay more than the £296 towards his mortgage going forward and – when the agent explained that the remaining £358 of the monthly repayment would be arrears – Mr S confirmed that he was aware of this but that it was his only option. I also note that, during the call on 27 June 2023, Mr S said that he had been selling everything he owned to try and find extra every month up until this point but that this had come to an end now and he was stuck. So I am not persuaded that he would have been able to clear the arrears (amounting to £358.36) by the time the Mortgage Charter had come into force.

Once the Charter had come into force, there was no obligation on Santander to contact Mr S and proactively offer the interest-only concession to Mr S – particularly in light of the fact that he would not have been eligible to receive this concession by that point as his mortgage payments were not up to date. The first time Mr S contacted Santander after the Charter had come into force was on 1 September 2023, by which time the arrears amounted to £1,372.98. So, again, I don't think that he would have been in a position to clear these in order to be eligible for the concession under the Charter at this point.

Mr S has also said that being offered the concession under the Charter would have meant that there were less arrears and would not have had such a negative effect on his credit rating. As set out above, this is not the case. A temporary interest-only period would also have meant that the account went into arrears – which would likely have been even higher, as an interest-only arrangement would have meant he was paying off less than he would have been with the existing arrangement. And this would also have been reported on Mr and Mrs S's credit files as an arrangement.

For those reasons, I remain of the view that Santander has not acted unreasonably in the circumstances of this case, and I do not uphold this complaint.

### **My final decision**

For the reasons I've explained in my provisional decision and above, my decision is that I do not uphold this complaint or require Santander UK Plc to do anything further.

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 20 June 2025.

Rachel Ellis  
**Ombudsman**