DRN-5607833

The complaint

Ms W complains that Lloyds Bank PLC is threatening to repossess her property which is subject to a buy to let mortgage, even though she's a vulnerable customer. She's also unhappy about the interest rate she's been charged.

What happened

Ms W has a buy to let mortgage with Lloyds. She borrowed £127,500 plus fees from Cheltenham & Gloucester (now part of Lloyds) in 2008. The mortgage was on interest only terms over 10 years – ending in 2018. In 2018 it was converted to part interest only and part repayment. The term of the repayment element was extended to January 2025, but the term of the interest only element was extended to July 2020. The mortgage has been on the standard variable rate (SVR) since 2009.

Ms W told our investigator that she'd had a discussion with Lloyds around six years ago, and been told that she could extend the term or convert the mortgage to partly or wholly repayment terms. She hadn't wanted to make a decision there and then, but when she called back to talk about things further, she found that Lloyds had already converted the mortgage to part interest only part repayment – which increased the monthly payments. Over time, this has led her to fall into arrears.

More recently, Ms W has decided to sell the property. She said that she wanted to put it on the market when the current tenancy expired in March 2025 – but Lloyds wasn't willing to allow her time to sell and threatened to repossess the property. She also complained that Lloyds wasn't keeping in contact wither her properly and refused to agree a reduced payment arrangement. And she wanted Lloyds to freeze interest while she tried to sell.

Lloyds said the mortgage was in significant arrears, with no payments made since early 2023 and only sporadic payments since 2021. As at January 2025 the arrears were over £43,000 (the equivalent of around twenty monthly payments). As a result the balance was increasing and the equity in the property was eroding – and it wasn't in anyone's interests for that to continue. It had agreed various extensions on the expired interest only element, but the last one expired at the same time as the end of the repayment term in January 2025. It said that it had agreed in July 2024 that it would hold the mortgage for six months to give Ms W time to sell the property. As things were no further forward by January 2025, it wouldn't agree a further extension.

Lloyds didn't uphold Ms W's complaint, but it paid £20 compensation for not treating her concerns as a complaint sooner than it did. It said that as the end of the term had been reached it would need to discuss how the mortgage could be repaid – it was aware of Ms W's circumstances and its vulnerable customer team would try and work with her.

Ms W wasn't happy with that and brought her complaint to the Financial Ombudsman Service. Our investigator didn't think it should be upheld, so Ms W asked for it to be reviewed by an ombudsman.

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.

I'm sorry to hear of Ms W's difficult personal circumstances and vulnerability. I'm sure this hasn't been an easy time for her. But, while I've taken all that into account, I'm afraid I don't think I can fairly uphold her complaint.

No recordings of Ms W's discussions with Lloyds in 2018 survive. That's not surprising, given the passage of time – firms aren't required to retain call recordings indefinitely. But that does mean that the only evidence I have of what was discussed is Ms W's recollections on the one hand, and Lloyds' notes from the time on the other.

At that time, Ms W's mortgage was coming to an end. She discussed what to do next with Lloyds. Lloyds looked at converting it to repayment in full, but that wouldn't be affordable. Ms W had some credit card debts at the time. Lloyds' notes say that it agreed to convert part of the mortgage to repayment terms then, and also to offer a shorter interest only extension for the remainder – with a view to Ms W potentially converting the rest once she'd cleared her credit card debts. Lloyds calculated that the new monthly payments were affordable based on Ms W's circumstances at the time, including the credit cards.

As I say, there's limited information available now. But on balance I'm persuaded that Lloyds' notes, recorded at the time, accurately reflect the conversation and the agreement reached with Ms W. I don't think it's likely Lloyds would have converted the mortgage without her agreement at the time. And the new payments did prove affordable – until Ms W's circumstances changed three years later.

Because of that change in circumstances, Ms W then struggled to afford the mortgage repayments – especially as interest rates rose from 2022. For the same reasons, converting the rest of the mortgage to interest only was no longer an option.

Given that the mortgage has been in arrears since 2021, and no payments have been made since 2023, and given that the interest only part of the mortgage expired with the capital due for repayment in 2020, I think Lloyds has shown Ms W reasonable forbearance and acted fairly and sympathetically to her circumstances. It's allowed her a series of extensions since 2020 to find a way to repay the capital, and it hasn't taken legal action or appointed receivers despite the substantial arrears – even though this is a buy to let property and not Ms W's home.

I don't think it was unreasonable that Lloyds wasn't prepared to grant any more extensions once the term of the repayment element also ended in January 2025. By then the arrears were over £40,000 which – combined with additional interest resulting from the arrears – meant the mortgage balance was increasing by over £2,000 per month while Ms W wasn't making any payments. That's not a sustainable situation, because it means that the equity in the property is rapidly eroding – which leaves Ms W in a worse position and also means there's more risk Lloyds won't be able to recover the full balance once the property is sold.

I appreciate that things have been very difficult for Ms W. But even taking that into account, I don't think I can fairly expect Lloyds to stop charging interest on the mortgage while the balance remains unpaid. As a vulnerable customer, it is required to take account of her circumstances and treat her fairly – but that doesn't include writing off the mortgage, either the balance itself or the interest due on it. This isn't a residential mortgage, secured on Ms W's home, so it doesn't come with the same regulatory requirements. In all the circumstances, I think Lloyds has shown Ms W reasonable forbearance.

Now that the complaint is over, if Ms W has proposals for repaying the mortgage she should discuss them with Lloyds. Lloyds should give any proposals she makes fair and sympathetic consideration. But it will be entitled to take further action to recover the debt if Ms W isn't in a position to repay it within a reasonable period. I hope that won't be necessary.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 19 August 2025.

Simon Pugh
Ombudsman