

## **The complaint**

Mr G complains that Bank of Scotland plc trading as Halifax refused to put his mortgage onto interest-only, for the short remaining period he says he's likely to own the property. Mr G said he couldn't afford the mortgage, but didn't want to start missing payments.

## **What happened**

Mr G said he and his wife had separated. She continues to live in the former marital home, which Mr G owns using a mortgage in his sole name with Halifax. Mr G has moved out, and rents a property elsewhere. He said he's currently going through a difficult divorce, litigating the custody of his children and the financial settlement. Whilst this happens, Mr G is paying towards two separate households.

Mr G said he asked Halifax to put his repayment mortgage onto interest only for a short period, under the terms provided for in the Mortgage Charter, to relieve the financial pressure on him. Halifax did that, reducing his monthly mortgage repayment from around £2,200 to just over £300. But that concession only lasts for six months.

At the end of the six month period, Mr G said he asked Halifax if he could continue to pay interest only for 12 to 24 months, until the divorce proceedings were resolved, which would involve the sale of the former family home and the repayment of this mortgage. But he said Halifax wouldn't do that. It would let him increase the term of his mortgage, adding an extra ten years, which did almost halve his monthly payments, but Mr G said he remained in financial difficulties.

Mr G told us he was only managing to make his monthly payments using credit card debt. He said Halifax told him there would be more options if he fell into arrears, but he wanted to avoid missing payments, as that would mean he couldn't get another mortgage in future to buy a new home for him and his children.

Mr G said he was a vulnerable customer, and he didn't think Halifax was supporting him.

Halifax didn't think it had made a mistake. It said that it considered Mr G's request to change his mortgage to interest only, but it couldn't make a permanent change to interest only for Mr G, because it thought that the payments would not be affordable for him over the full term. Halifax said it had to treat Mr G's application in this way, and it couldn't offer him what he wanted. Halifax said it had been able to agree to extend Mr G's mortgage instead, because that's not subject to the same stringent rules.

Our investigator didn't think this complaint should be upheld. I won't set out his view here, as I haven't adopted it.

Mr G wanted his complaint to be considered by an ombudsman, so it was passed to me for a final decision. And I then reached my provisional decision on this case.

## **My provisional decision**

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

Mr G said he approached Halifax for a change to his existing repayment mortgage, because he couldn't afford to pay his old mortgage, and to run a new, separate household as well. Mr G has told us he's been maintaining the monthly payments to date using credit. It's relevant that Mr G also says this situation cannot continue in the longer term, and he says both he and his former partner accept that the former marital home will need to be sold as part of a divorce settlement. He's said he anticipates that this will take around 12 to 24 months, and says he initially asked Halifax to change his mortgage to interest only, for that length of time.

Halifax has considered whether it can make a permanent change to Mr G's mortgage. And it says Mr G cannot afford the payments which would be due on his mortgage, if it were changed to interest only on a permanent basis.

Halifax also says that his interest rate is likely to increase substantially at the end of 2025, when his existing fixed interest rate ends. It has told Mr G that it was only able to extend the term on his mortgage, because it doesn't have to apply the same level of testing to that change, as it would apply to a change to interest only.

Mr G says Halifax has told him it may be able to offer him lower payments, once he falls behind with his mortgage. Mr G says he's desperate to avoid that happening, because he then won't be able to get another mortgage in future, to provide a new home for his family after the divorce. But Halifax isn't required to wait until Mr G is in arrears, before it can offer Mr G concessions. And importantly, in the current circumstances, it ought not to wait.

From the information Halifax has shown us, it does appear as if Halifax is aware that Mr G is already at risk of a payment shortfall on his mortgage, and this risk is likely to increase in the near future. In other words, Mr G already *"has or may have payment difficulties"*, as defined within MCOB. (The Mortgage Conduct of Business handbook, often shortened to "MCOB", is the regulatory sourcebook for mortgages that Halifax referred to when explaining to Mr G why it couldn't offer a permanent change to interest only.)

But it's not clear that Halifax has considered the concessions that MCOB says it must consider, for someone who has or may have payment difficulties. I think it's likely that if Halifax had considered these options fairly and reasonably, it would have decided that it could put Mr G's mortgage onto interest only for a temporary period, and review this once that period was up. I think Halifax would be likely to have concluded it could waive Mr G's repayment of capital for a year initially, and then review this to see if Mr G's circumstances had changed, and if his divorce and financial settlement were progressing in line with his current plans to sell the property.

Because I think it's likely that Halifax would, if it had given fair and reasonable consideration to temporary changes to Mr G's mortgage, have reached this conclusion in April 2024, I think that Halifax should rework Mr G's mortgage so that it has been on interest only, since April 2024. It should refund to Mr G any overpayments he's made during this period (and Mr G can then use that money to reduce his outstanding credit card debts, if he wishes).

My conclusions here are that Halifax would have put a temporary concession in place, if it had considered this fairly and reasonably, in April 2024. So once Halifax has taken the

above steps, it may then review Mr G's current position, to see if this concession remains appropriate.

And finally, as I think it's likely that Halifax's failure to support Mr G, as a vulnerable customer and someone who has or may have payment difficulties, has resulted in considerable distress for Mr G over the last year, I think Halifax should also pay Mr G £250 in compensation. I think that would provide a fair and reasonable outcome to this complaint.

My conclusions here don't require Halifax to allow Mr G to continue this concession, past the date of its review. But equally, they do not prevent Mr G from complaining to our service again, if Halifax decides to remove this concession.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both sides replied.

### **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.

Mr G replied to disagree. He didn't think my provisional decision went far enough.

Mr G said he would like the temporary concession period allowing him to pay interest only, to run from April 2024 to April 2026 before any further review by Halifax. Mr G said Halifax's failure to support him had caused considerable distress, and he'd been funding this mortgage using credit. He said he was being charged considerable interest on that borrowing. He said he'd originally asked for a concession period of 12 to 24 months from Halifax to allow his divorce proceedings to be resolved. But he said he was now in even more need of 24 months because of the additional debt he had accrued from having to make payments in full to Halifax, since April 2024. So he wanted me to set a temporary concession period that would extend until April 2026.

Mr G said it would be unequitable to allow Halifax to review the concession before April 2026, given the distress it had already caused.

Mr G also asked me to increase the compensation to £500, for the distress caused by Halifax not considering the concessions that MCOB says it must consider.

When Mr G asked Halifax to put his mortgage on interest only for a temporary period, it refused. I thought, on balance, that if Halifax had reviewed this fairly, it would be likely to have agreed to a temporary period of interest only, while Mr G moved forward with his plans to reach a divorce settlement which will involve selling the property.

I wouldn't have expected Halifax to put this concession in place on a permanent basis at that time. It said Mr G couldn't afford that. So I think it's reasonable for Halifax to review this once it has implemented my decision. That will allow Halifax to assess Mr G's progress towards the goals he set out, and to reach a conclusion on whether this concession remains appropriate for him. I'm conscious that Halifax didn't carry out this review, at the start of the concession period I am now requiring it to apply. So I don't think Halifax should simply leave this concession in place for almost a year from now, with no review.

Mr G also said he felt Halifax should pay £500 in compensation. But he appears to have reached that view, at least in part, because he now thinks Halifax failed to do something it should have done. And the purpose of the awards our service can make, isn't to punish

Halifax, it's to take account of the impact of its actions on Mr G here. So I still think a payment of £250 remains appropriate here.

Halifax also replied to disagree. It thought my decision went too far.

Halifax said it didn't think my provisional decision was in Mr G's best interests. It felt it had fully considered MCOB in reaching its decisions, and had offered him support. It said it had extended the term of his mortgage to reduce his monthly payment significantly. And it said it had discussed the solutions it can offer if Mr G does fall into arrears, but it understood Mr G didn't want that, because he wanted to maintain his credit score.

Halifax said it had concerns about the request to backdate interest only payments for a number of reasons. Halifax said a transfer to interest only would just mask Mr G's financial difficulties, which could remain in place for an unknown period of time. Halifax said it didn't know how long it would take to conclude Mr G's divorce settlement, or for the property to sell. So it didn't know when Mr G's financial difficulties might end.

Halifax said Mr G was currently paying just over £1,300 on his repayment mortgage. A change to interest only on his current interest rate would reduce payments to about £325, but that was based on his current mortgage balance, not the balance of the mortgage if the bank were to backdate the interest only agreement and issue a refund to Mr G. Then it would be a little higher.

Halifax also said it was important to consider that even if Mr G's mortgage was on interest only, payments would still increase significantly when his fixed interest rate ends, in November 2025.

Halifax said if Mr G was selling the property, he would presumably not want to take out a new fixed interest rate deal in November 2025, which would come with an early repayment charge. That would mean that from November 2025 Mr G would be paying Halifax's standard variable rate. And if so, he was likely to have to pay more then, even if his mortgage was on interest only, than he's currently paying on repayment. Mr G had already said his existing payments were unaffordable. So Halifax said an interest only option wouldn't be sustainable after November 2025.

Halifax said it didn't know if Mr G would still have the mortgage after November 2025, but it thought this was likely. Halifax said it was worried Mr G would end up relying on unsecured credit to cover the gap between his monthly payments and what he could afford. Halifax said Mr G had told us this was impacting his emotional and physical health, and it thought that what I was proposing would make things worse.

Halifax said if Mr G's circumstances had changed, for example if the property is being actively marketed for sale, its view on whether an interest only period was suitable would take that into account.

Halifax said if I still thought that this mortgage should be converted to temporary interest only, then it wanted to know how long it would be required to keep this concession in place, as it didn't think my decision had made that clear. But Halifax said it still didn't think a chance to temporary interest only period was in Mr G's long term best interests.

Halifax said it would propose to recheck if Mr G's mortgage could be converted to interest only on a permanent basis, which would avoid the significant payment increase likely to take place once the proposed temporary interest only period ends, and allow Mr G further time if he wasn't in a position to market the property in the near future. But Halifax said if a permanent conversion to interest only wasn't affordable, then it also wouldn't look at a

temporary interest only agreement, referring again to this masking Mr G's current financial difficulty. And it thought Mr G should take independent financial advice to look at all of his options going forward.

Halifax's concerns appear to centre on two things, one is the length of time that the concession I'm requiring should stay in place, and the other is whether Mr G can afford to pay his mortgage in the longer term.

I think it's worth repeating here that Mr G has been clear he can't afford to pay for two households, and this property will need to be sold. He's asked for some time to achieve that.

And my provisional decision set out that Halifax is required to rework Mr G's mortgage, so that it started a period of interest only in April 2024. But I also said "*...once Halifax has taken the above steps, it may then review Mr G's current position, to see if this concession remains appropriate.*" So my decision does require Halifax to put Mr G's mortgage on interest-only, now. But it doesn't require Halifax to leave the period of interest-only in place, going forward. Halifax may review that concession straight away.

I remain of the view that Halifax would, if it had fairly considered Mr G's request in April 2024, have put this mortgage onto a temporary period of interest only. I understand Halifax considers this is masking Mr G's payment difficulties, but Mr G has been clear that he expected those difficulties to be short term, and to be resolved by the sale of the property. So I still think that backdating this concession will allow Mr G some time and breathing space to put his revised plans into action. However, the award I am making here is not a requirement for a permanent change to Mr G's mortgage.

Halifax has said that if Mr G's circumstances have changed, for instance if the property is being actively marketed, it will take that into account now. I've explained that my provisional decision does allow Halifax to review its concession right away. I hope that making this clear once more will resolve many of the concerns that Halifax has expressed above.

It will be for Halifax, going forward, to decide if this, or any other, concession would be appropriate for Mr G going forward. I won't comment on that here, for a number of reasons, including that I don't know Mr G's full and up to date position, but also that I would not wish to prejudge any future investigation into this our service may make.

For the above reasons, I haven't changed my mind. I'll now make the decision I originally proposed.

### **My final decision**

My final decision is that Bank of Scotland plc trading as Halifax must rework Mr G's mortgage so that it has been on interest only, since April 2024, and refund to Mr G any overpayments he's made during this period. Bank of Scotland plc trading as Halifax must also pay Mr G £250 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 30 July 2025.

Esther Absalom-Gough

**Ombudsman**