DRN-5785407

The complaint

Mr and Mrs D complain about their interest only mortgage with The Royal Bank of Scotland Plc (RBS). They say they weren't made aware it was taken out as an interest only mortgage – and they've now been left with a substantial balance near the end of the term. They're also unhappy with how RBS has treated them, and that it says there are arrears on the mortgage. They complain it's refused to engage with their representative.

What happened

Mr and Mrs D have a mortgage with RBS. It was originally taken out in 2001 on interest only terms. Mr and Mrs D borrowed around £46,000 over a 25 year term.

In 2012, Mr and Mrs D borrowed a further £100,000, this time over a ten year term, again on interest only. RBS later extended the term of this part of the mortgage to 2023.

Both parts of the mortgage were on a two year fixed interest rate of 2.25% until 30 April 2022, reverting to the standard variable rate (SVR) thereafter.

Mr and Mrs D say that the mortgage was mis-sold. It was only in around 2018 that they discovered that it was an interest only mortgage, the balance wasn't reducing, and they would still owe the capital at the end of the term. They said they had trusted RBS to make sure they got the right deal and that their mortgage would be repaid. RBS should not have sold them an interest only mortgage without making sure they could repay it at the end of the term.

In 2022, when the term of the second part of the mortgage expired, Mr and Mrs D agreed a one year extension with RBS. They say this meant they had to pay an extra year's interest, without their debt reducing at all. Mr D has been in poor health, with a reduced income, so they have been living on their savings. These have now run out and the mortgage has become unaffordable.

When the term expired again, Mr and Mrs D complained and sought advice. RBS referred them to its specialist support team. Mr and Mrs D say that team told them to stop making payments "until the position had been reviewed". They say they understood that RBS had frozen the account until a way forward could be found. They were shocked to discover that RBS was still charging interest and adding it to the balance, and was now treating them as being in arrears. They had told RBS that they were vulnerable and in poor health and that RBS should not contact them but deal with their representative, but RBS had ignored that instruction.

RBS said the mortgage was not mis-sold. It was taken out on an interest only basis and Mr and Mrs D understood that at the time. It had looked at converting it to repayment terms in the past but that wasn't affordable. The term on the second part of the mortgage had expired and that capital balance needed to be repaid. It had not told Mr and Mrs D to stop making payments. It offered £100 compensation for delays in responding to Mr and Mrs D.

Our investigator said that it was reasonable that RBS didn't extend the term of the mortgage for a longer period, or convert it to repayment terms, when there were concerns about affordability and how the capital would be repaid at the end of any extended term. But he said that RBS should have extended the term of the further borrowing account for a shorter period so that it expired at the same time as the initial borrowing in 2026. He said that if RBS had done this in 2022, rather than extending for one year only, it was likely that Mr and Mrs D would have been able to secure a further fixed rate at that time. This would have made their monthly repayments cheaper than reverting to the SVR, and given them some time to explore other options for repayment by 2026.

The investigator said that Mr and Mrs D stopped paying their mortgage in early 2024. They said that they couldn't afford to maintain it as they'd been relying on their savings. And they said RBS had told them not to make any more payments while their mortgage was being investigated. The investigator said there was no evidence RBS had said that to Mr and Mrs D, and they were still required to make the payments. But he said that RBS had not been helpful around this time when Mr and Mrs D were trying to discuss a way forward with their mortgage. And it hadn't responded to attempts to engage on their behalf by their representative. He said it should pay them a further £600 compensation – making £700 in all.

RBS accepted that. But Mr and Mrs D asked for an ombudsman to review their complaint.

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 about Mr and Mrs D's poor health and difficult circumstances. I'm sure the last few years have been very upsetting and worrying for them – not least because of their concerns about what will happen with their mortgage and their home.

The documentation from the time of the lending clearly shows that this was an interest only mortgage. Mr and Mrs D selected "endowment mortgage" on the application form rather than "capital and repayment mortgage". The lending documents also show that RBS didn't give them advice, and that it arranged the mortgage they selected. I'm not therefore persuaded that the mortgage was mis-sold or wrongly set up, should always have been on repayment terms, or that anything about the circumstances in which it was sold have otherwise resulted in an unfair relationship.

More recently, I agree that RBS hasn't always handled things as well as it should have done. Its communications with Mr and Mrs D have been intermittent and confusing. At times it's contacted them frequently for updates when they've asked it not to; at other times it's not contacted them when they've asked for help or to explore solutions for repaying. And when Mr and Mrs D asked a representative to deal with RBS on their behalf, it ignored their requests and ignored contact from their representative. This has caused them much upset and hasn't helped them resolve their overall situation. I agree that increasing the compensation to £700 fairly reflects the upset caused over time.

However, it is also important to stress that this is Mr and Mrs D's mortgage, and a debt they do owe, secured over their home. They're in a very difficult situation, where the ongoing payments aren't affordable, and they have no means of repaying the capital. In those circumstances, I'm afraid there isn't much that RBS can do to help. It can allow them some time to find a way to repay the mortgage – Mr and Mrs D say that they've recently taken independent financial advice, following which they're intending to sell their property and downsize – but it can't make the mortgage go away.

Mr and Mrs D are going to have to repay what they borrowed at some point. I would expect RBS to show reasonable forbearance to give them time to find a way to do that – but that can't continue indefinitely. While Mr and Mrs D aren't able to make any payments, their balance is increasing with every month that passes. If selling the property is their plan, the longer it takes to do that, the higher the balance to pay will be, and the less equity Mr and Mrs D will be left with to use for downsizing.

I therefore hope that Mr and Mrs D will be able to find a solution that enables them to repay their mortgage sooner rather than later, and bring this situation to an end – with all the distress it has caused them.

I've also thought about whether there was more specifically that RBS could have done to help them. It has explored changing the mortgage to repayment terms, and extending the term beyond 2026, on several occasions, but that hasn't proved possible. I don't think that was unreasonable. Converting the mortgage to repayment – even over an extended term – would have significantly increased the monthly payments. That wasn't affordable for Mr and Mrs D. So making that change would have made their situation worse. And extending the term on interest only terms beyond 2026 wouldn't have helped either – because Mr and Mrs D would still need to have a way of repaying the capital at the end of any extended term. They don't have a way of doing so, other than it seems selling their property. Given their ages and health conditions, I understand why that's a difficult and daunting prospect for them. But the longer it is left, the worse it will get – especially now the mortgage isn't affordable for them even on interest only terms.

However, I do agree that RBS should have extended the term of the further borrowing until 2026 to match the term of the initial borrowing in 2022, at a time when Mr and Mrs D were able to make the ongoing payments. That would have meant that Mr and Mrs D had a clear date to focus on repaying their mortgage – rather than having one part end while another part was still running. And it would have meant that RBS could have offered them a reduced interest rate in 2022, which would have made the mortgage more affordable for them at that time. But, to be clear, even if the term had been extended to 2026, that would not stop RBS trying to address the arrears that have arisen in the meantime.

I'm not persuaded that RBS told Mr and Mrs D to stop paying their mortgage, or that they didn't have to make any further payments, in 2024. That wasn't true. They were required to continue to make the payments. In my experience, no lender would ever tell a borrower that they didn't need to make payments, and I've not seen any evidence that RBS did say that here. I think Mr and Mrs D may have misunderstood or mis-remembered conversations they had had – but nothing I've heard suggested that was what RBS said. And RBS has made clear on many occasions since the conversation Mr and Mrs D remember in early 2024 that they do in fact have to pay their mortgage each month, but they haven't done so.

From what Mr and Mrs D have said, it seems that they can't actually afford to make payments in any case. So it's likely the mortgage would always have fallen into arrears from early 2024 anyway, even if Mr and Mrs D didn't mistakenly believe they didn't have to pay. In other words, even if they knew they had to pay, they still wouldn't have been able to.

If RBS had offered them a fixed rate in 2022, that would have ended around this time. I don't think it would have been fair and reasonable to offer another at a point Mr and Mrs D could no longer afford to make any monthly payments and have no prospect of things improving in the future. Where that's the case, I'd expect them to be looking at other ways of bringing the mortgage to an end – selling the property, or taking a lifetime mortgage, for example. In those circumstances, it's not a good idea to take a new fixed rate, because it doesn't solve the problem of monthly payments being unaffordable, but it does add a substantial early repayment charge if the mortgage is successfully brought to an end.

If Mr and Mrs D accept this decision, the term of the second part of their mortgage will be extended to match the first, and both will expire in 2026. That's not far off – and because they've made no payments for a year and a half, the mortgage balance is increasing all the time. That's not just because the missed payments are being added to the balance; it's also because those missed payments mean the balance is higher and therefore more interest is being charged. Therefore the amount the balance is increasing by just gets bigger with every passing month.

Mr and Mrs D's representative told our investigator that they now have a plan to sell the property to repay, and that they'll downsize to a smaller property. I hope that's something they're able to implement soon, before their situation gets much worse. But they do need to understand that it is for them to find a way to bring the mortgage to an end – and that RBS has a responsibility not to let things drag on too long if that risks just making things worse. I suggest that as soon as this complaint is over, Mr and Mrs D or their representative contacts RBS to set out their plan for repaying – both when and how.

In the meantime, RBS will need to treat Mr and Mrs D fairly and sympathetically. There are certain things – such as statements, arrears letters, and so on, which it must send to them. The regulator's rules are clear about that.

But given what they and their representative have said about the impact of all this on them, RBS does need to improve the way it communicates with Mr and Mrs D. One team or department should take ownership of supporting them to bring their mortgage to an end if possible – only taking further action where there isn't a realistic prospect of that. Hopefully that will prevent the misunderstandings and gaps in support that have happened in the past.

Wherever possible, RBS should communicate with their representative rather than with Mr and Mrs D direct. And if it does need to speak to Mr and Mrs D direct, in my view it would be best if RBS arranges a convenient time via their representative rather than calling out of the blue.

Putting things right

To put things right, RBS should:

- Re-work Mr and Mrs D's mortgage as if the lowest available two year fixed rate had been applied in April 2022. Any resulting overpayments should be used to reduce the arrears that have arisen since 2024.
- Extend the term of the further borrowing account to match the term of the initial borrowing account, expiring in 2026.
- Pay Mr and Mrs D £700 compensation – to include the £100 previously offered.

Moving forward, it should communicate with Mr and Mrs D via their representative where possible – including arranging with the representative a time to speak with Mr and Mrs D direct where necessary to do so.

My final decision

My final decision is that I direct The Royal Bank of Scotland Plc to take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D and Mrs D to accept or reject my decision before 20 October 2025.

Simon Pugh
Ombudsman