

The complaint

Mr P is unhappy that Santander UK Plc won't switch his mortgage to interest only temporarily. He has explained that he is aware he needs to sell his property as it's no longer affordable, but due to personal family circumstances, he's unable to do so for a few years. Mr P said this change will help him until he is in a position to do so.

What happened

Mr P took out a mortgage with Santander in 2019. The mortgage offer shows he borrowed £550,000 on a repayment basis over a term of 28 years. The mortgage was fixed for two years on a rate of 2.99% until 2 June 2021.

Mr P has explained that since he took the mortgage out, his personal circumstances have changed which has resulted in him experiencing some financial difficulty. He has told us that he was made redundant and was out of work for several months whereby he used his savings to ensure that the mortgage continued to be repaid. He also explained that his wife who isn't named on the mortgage, also lost her job which impacted their household's financial position.

Mr P applied for support under the mortgage charter, where he was able to switch his mortgage to interest only for six months without it affecting his credit file. This ended in June 2024. His payments under the charter were £2,347.69 which then increased to £3,248.41 once this ended. He continued to use his savings to meet his contractual monthly payment (CMP).

In October 2024, Mr P contacted Santander and spoke to their financial care team. He explained his situation and said he was looking at options to reduce his CMP. He said he was looking for a longer-term option to change his mortgage to interest only.

Mr P arranged for an independent valuation of his property from an estate agent who valued the property at £775,000. He then approached Santander again in December 2024 to see if he could switch part of his mortgage to interest only. As part of this process, Santander arranged for their own valuation to be completed which was done on 11 December 2024 resulting in a valuation of £700,000.

Mr P contested this valuation but still proceeded with the application process to switch the mortgage to interest only. During the telephone call, it became apparent to Santander that the reason that Mr P wanted to switch his mortgage to interest only was due to financial difficulties. They said this was outside of their policy, so they didn't proceed. They told Mr P to go back to their financial care team.

Mr P was told by Santander that he could agree to a reduced payment plan, but this would affect his credit file. Mr P wasn't happy about this. He explained that he needed to sell his property in two to three years' time once his son had finished his GCSE's and the plan was to downsize his property to make it more affordable. He said he was worried that his credit file would affect this. He explained the situation with his son and why it wasn't the right time to sell his property now.

Mr P complained to Santander in January 2025 as he felt they were not giving him suitable options to help his situation. Santander said that Mr P didn't meet their criteria to change the mortgage to interest only permanently.

Mr P then entered a short-term arrangement with Santander in March and April 2025 where he paid £2,541.83. Mr P then switched his mortgage to a three-year fixed rate at 4.32% with a CMP of £2,896.33 from May 2025. However, Mr P is still unable to meet his CMP.

As Mr P was still dissatisfied that Santander wouldn't allow him to switch his mortgage to interest only, he brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators.

Our investigator upheld this complaint and said that Mr P didn't want a permanent change to interest only, he just required it for two to three years to allow his son to finish his GCSE's and based on his son's needs, a move now would disrupt him at an important time in his life. So he said that Santander should allow a temporary change to interest only for the time that he is on the new fixed rate. And if Mr P is able to resume the full CMP then he should do so, And if not, then he'll need to sell his property in three years' time like he said he would. But Santander would need to then give reasonable forbearance while the sale goes through.

My initial thoughts were to uphold this complaint and I sent out a provisional decision, minded to direct Santander to allow Mr P to switch his mortgage to interest only for three years. But Santander didn't agree with this and made the following comments:

- They have offered Mr P various options which he may be eligible for under their policies which include, reduced payment plan, term extension, suggestion to speak to unsecured creditors to reduce payments and a third-party referral where they can put the account on hold for 30 days so Mr P can seek independent legal advice. Santander said all of these options have been rejected by Mr P.
- The provisional decision (PD) has placed significant reliance on the MCOB rules where a customer's financial difficulty is based on specific circumstances. However, the change to interest only requires Santander to issue a new contract to Mr P and they believe that by doing so, for a mortgage that is unaffordable, they are in breach of their legal and regulatory obligations.
- Santander do not believe that amending Mr P's credit file is fair as it's a factual reflection of the failure to meet his monthly payments under the terms of the contract. And this wouldn't be fair to other customers as it would undermine credit reporting.
- They have empathy for Mr P's situation and they understand they are unique to him but they do not agree that they are overall unique circumstances based on other cases they have looked at – which includes the ones our service have looked into too.

Santander then made reference to MCOB 13.3 Dealing fairly with customers: policy and procedures – FCA Handbook and quoted, in summary the following:

- MCOB 13.3.4A does not overrule Santander's competing obligations to act as a responsible lender and only advance affordable lending. This would mean giving Mr P an unaffordable mortgage which they know he cannot afford.
- MCOB 13.3.4A is subject to a lender's own credit policies and risk appetite. They have policies in place to treat customers fairly who are in payment difficulties and the PD attempts to override these policies and puts Santander in breach of MCOB 13.3.1(2).
- MCOB 13.3.4A lists various options which a firm must consider offering customers who are in financial difficulty. These include changing the term or the mortgage type. They have considered these options and there is no option in MCOB 13.3.4A(1) which requires firms to offer a temporary change in repayment type for a mid-length period. The option listed is for an entire change. Mr P doesn't meet the policy including affordability for this change.
- Mr P has had the benefit for forbearance under the mortgage charter for six months.

Santander cannot extend this beyond that period.

- They have considered MCOB 12.3.4A(3) which requires them to take into account any potential arrangements on the customers overall balance and take reasonable steps to ensure that any arrangements in payment shortfalls are appropriate. They said no options remain appropriate for Mr P and it's unreasonable for our service to require them to take steps which place them in breach of MCOB.
- Santander said it cannot be assumed that Mr P will be in a position to sell the property in three years' time and could be in a worse financial position. Mr P may also find it difficult to maintain the interest only payments during this period.
- Since the complaint has been with our service Mr P has entered into a reduced payment plan setting this up for one to two months at a time. Santander have concerns about how Mr P will be able to afford his mortgage payments when taking into account his other liabilities.
- Santander have agreed as a final option, that if Mr P can meet affordability elsewhere, they will waive the early repayment charge which is chargeable until 2 June 2028 to allow him to move to another lender.

I looked at the case again and issued a second provisional decision on 23 September 2025. I said:

I've considered the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I'd like to thank both parties for the time they have taken to provide me with additional information regarding the provisional decision that was sent.

I have thought about everything very carefully and taken into account the arguments that Santander have made and I'm sorry to disappoint Mr P, but I am now minded to change my outcome of this case.

The investigator reached out to Mr P to ask for some additional information regarding Mr P's son and his educational needs which I have seen. I'd like to thank Mr P for being honest and for sharing this information. Having reviewed this, alongside what Santander has said, I am now not persuaded that the reasons that Mr P has given is enough to ask Santander to go outside of their policy and change Mr P's mortgage to interest only for three years. I do appreciate that Mr P will be very disappointed in this change in outcome.

I have seen recent contact notes provided by Santander and I can see that Mr P has been entering into reduced payment plans to support him while our service looks into his complaint. I can see on one of the calls that Mr P has disclosed a shortfall in tax that he owes and that because of this, he has stopped claiming child benefit. Whilst initially I thought the interest only payments would help Mr P, I'm now not persuaded that this is going to benefit him in the long term. It's evident that he is in financial difficulty and I do have some concerns about his other liabilities that he now has. I don't think changing the mortgage to interest only is the right thing to do.

A lender is required to explore different ways to help customers who are in financial difficulty. Mr P has explained that his situation has changed where he changed jobs after being out of work for a while and is now being paid less than he was before. His wife also lost her job which had an impact on their finances.

This is a longer term situation where Mr P says he can't sell his property due to his son attending a school that supports his educational needs. I do have empathy for Mr P's situation and appreciate the difficult circumstances he's found himself in. But thinking about everything again, taking into account recent information, I don't think delaying matters is going to put Mr P in a better position.

I don't think it's appropriate for Santander to switch Mr P's mortgage to interest only for the duration of the fixed rate as at the end of this period, the overall debt would have increased to a level that would be higher to what it was before. I can't see how that would benefit Mr P as his CMP would also therefore increase after this period.

I think it's important to point out the difference between a temporary switch to interest only and a permanent one. Under the MCOB rules, a request to change a mortgage from capital repayment to interest only is considered to be a contractual change to the mortgage terms. In such circumstances, an application must be submitted, and the lender is required to carry out an affordability assessment before agreeing to the request.

A temporary switch to interest only (without an application to vary the contract terms) can be in some circumstances be agreed but only for forbearance reasons – so like in Mr P's case – where he is experiencing financial difficulties. It's important to note here that the difference in payments may become agreed arrears and this may be reflected on the customer's credit file. When the agreement ends, the lender will either capitalise the arrears and recalculate the monthly payments or agree a repayment plan to clear the arrears over time.

The only exception to this is the mortgage charter, which Mr P has already had the benefit of. This allows customers to switch to interest only for 6 months, without any impact to their credit file. But this doesn't mean that Santander should extend this for Mr P because of his situation, because of what I have mentioned above. This could put Mr P at a disadvantage, and I do agree with what Santander have said.

I know that Mr P said he would sell his property in three years' time, but anything can happen in three years and by that point, Mr P's financial situation could be worse.

The situation that Mr P has found himself in isn't his fault, circumstances have changed which has meant the mortgage is now no longer affordable. But it's not Santander's fault either. Santander have provided options to Mr P to help him through this, which from what I can see they are still doing – but changing the mortgage isn't a suitable option and I now agree with the comments that Santander have made.

This has been a very difficult decision for me as I initially found in Mr P's favour and was very persuaded by what he told us. But I have to think about the long term here and what that may mean for both Mr P and Santander. I don't think I can arguably stick with the decision I came to before as I don't think it's the right one for both parties.

Santander's obligation as a lender is to ensure that any arrangements are affordable and sustainable. This doesn't mean that Santander, or any lender should give a consumer whatever they ask for but instead provide options that will help so as not to postpone the inevitable if it's clear the mortgage isn't affordable.

As a way to help Mr P, Santander have agreed to waive the early repayment charge on Mr P's mortgage so that he has options to move to a different lender, without incurring this charge. I think this is fair of Santander to offer this and this is something that Mr P may want to now consider as an option.

I would ask Santander to continue looking at options to support Mr P until Mr P decides what he wants to do. It may be worthwhile Mr P seeking independent financial advice to see what other options are available to him.

Developments

Santander responded and accepted what I had said in the provisional decision. They said they are committed to work with Mr P in order to assist him while he is going through a period of financial difficulty.

Mr P responded and didn't agree. In summary, he made the following comments:

- The original provisional decision represented a fair resolution which balanced Santander's interests with Mr P's unique family circumstances.
- The reversal of the provisional decision places disproportionate weight on Santander's late stage legal arguments, rather than the practical realities of Mr P's situation. Santander should have made these arguments earlier on and this has now resulted in procedural unfairness.
- The Financial Ombudsman Service's remit is to determine what is fair and reasonable in the circumstances. While the rules follow the FCA's handbook, Santander are attempting to apply these policies selectively and not in the best interests of their customer.
- MCOB 13.3.4A explicitly requires firms to consider tailored options including changes to mortgage type. It does not specify whether that is a temporary or permanent switch. The list of options presented in MCOB is not exhaustive and firms should take into account their customers' circumstances which will vary.
- The FCA expects firms to act in the customers' best interests even if that means deviating from rigid policy. The Financial Ombudsman is not bound to enforce lender policy but decides cases based on what is fair and reasonable.
- It is inconsistent of Santander to argue that interest only is unaffordable for Mr P as since March 2025, he has consistently exceeded the interest only amount by £600 to £800 per month. This demonstrates that Mr P can afford the interest only payments and will contribute to Mr P's financial stability.
- Mr P's mortgage balance is approximately £495,000 with a property value between £700,000 and £775,000 meaning the loan to value ratio is between 64% and 71% so Santander has a substantial equity buffer to mitigate their risk.
- Mr P's son has documented additional needs and receives specialist provision at his current school. A forced move now would cause serious disruption to his education, wellbeing and future prospects.
- There are errors in the revised reasoning as the overall debt doesn't increase under the previous decision. Under an interest only arrangement, capital remains static, all interest due is paid and the full CMP is met so no arrears exist. Debt increases under a reduced payment plan due to arrears and additional interest being charged.
- The three year uncertainty is inherent in all lending and failed to recognise that positive developments are equal such as career advances, Mr P's wife's employment prospects and house price increases.
- Incorrect that an underpayment of tax is evidence of financial difficulty. HMRC failed to account for child benefit payments in calculating tax codes resulting in underpaid tax.
- Options have not been provided by Santander and any options they have suggested are either unviable, ineffective or detrimental. Term extension is not possible due to Mr P's age, alternative interest rates are unaffordable, reduced payment plans harm Mr P's credit file and any exit plan. The ERC waiver is only meaningful if Mr P can remortgage which Santander have made highly unlikely.
- At the end of the three year interest only period, If Mr P cannot afford to switch the

mortgage to capital repayment, he will sell the property. By overturning the previous decision, this exit plan becomes infeasible as the overall debt would have increased and Mr P's credit file impacted,

Mr P would like the Ombudsman to grant a three-year switch to interest only, cancel any arrears accrued during this period and rectify any negative impact on Mr P's credit record.

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 won't be commenting on every point that Mr P has made but I'd like to reassure him that I have taken everything into consideration and thought about things very carefully. But I'm sorry to disappoint Mr P, but I won't be changing my mind.

I appreciate he has been put in a very difficult situation, but ultimately, the mortgage that he has is no longer affordable due to changes in his circumstances.

Mr P has highlighted the MCOB rules and FCA guidance above, and I have taken these into account when reaching my decision.

While the MCOB rules do state that a firm can allow a borrower to change the mortgage type, it doesn't specify that this is for a temporary change. It also states that a firm must take into account any potential changes to the overall balance.

The point I was making about the balance increasing is that while Mr P is on a repayment mortgage, his balance is decreasing. I am aware that it stays the same when a mortgage is on interest only but once the mortgage reverts to repayment, the balance is then more than it would have been, had it stayed on repayment throughout – because Mr P would have only been paying interest on the outstanding balance.

Santander has to consider what forbearance options they can offer Mr P which is what we expect them to do but I wouldn't expect Santander to 'mask' the situation by giving Mr P a mortgage on interest only terms for three years. Three years isn't a short term forbearance measure and it's not something I can ask Santander to do.

A reduced payment plan is a form of forbearance, but Mr P isn't happy with this as it affects his credit file. But that equally doesn't mean that Santander should just switch the mortgage to interest only.

I appreciate that Mr P's son has support at the school that he is at and appreciate why Mr P doesn't want this to be disrupted. I am not making light of this at all, and I can only imagine how difficult things are. However, I have to balance what is right here and be fair to both sides. Mr P can no longer afford the mortgage as it is, and while Mr P believes it's in his best interest to switch the mortgage to interest only for three years, best interests doesn't mean a business just has to grant whatever a customer wants.

Mr P has a repayment mortgage that has become unaffordable and while switching it to interest only may help him for the next few years, it doesn't remove the fact that it's currently not affordable. And like I said in my provisional decision, a permanent interest only move isn't an option, and three years is too long as a forbearance option because anything can happen during that time. I understand Mr P's point in that you can say that about any one and any situation, but we are looking specifically at Mr P's situation.

If I was to accept what Mr P has said about his other liabilities, it still doesn't change the fact that he *is* in financial difficulty. The mortgage he took out is no longer affordable.

Mr P has said that things can change in three years' time such as his career prospects or the fact that his wife may be able to get a new job, but nothing has changed so far and there is no guarantee that it will in the next few years. The bottom line is that we just don't know.

I understand the concern that Mr P has about his credit rating, but his credit rating and how Santander are reporting it, is a true reflection of how things are. It's not reasonable to ask Santander to do something, just so that Mr P's credit file isn't affected. Santander will be reporting Mr P's mortgage as being on a an arrangement, which is different to it just being reported as missed payments or arrears.

Mr P may want to see what options he has now, and it may be that he is able to move and downsize in order to make things more affordable for him. And while I note the comment he has made about his credit score, there may still be options for him. If he decides that he can find a property which is smaller at a location that means his son doesn't need to change schools, he can apply to Santander for a new mortgage, and I would expect Santander to consider this fairly. And if for any reason Mr P does this, and it gets declined then he is able to bring that as a new complaint to our service if he wishes to do so.

Santander have said that they are committed to work with Mr P in order to assist him while he is going through a period of financial difficulty. They haven't said they are going to take any action against Mr P and I would expect them to continue to support Mr P as they have been doing. It appears Santander are continuing to review the situation with Mr P every few months and agreeing reduced payment plans, which is fair in this situation.

I know that Mr P will be disappointed with my decision, and I know he want's me to agree to what I had said originally, but this isn't something that I am able to do based on what I said in my latest provisional decision and above.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 13 November 2025.

Maria Drury
Ombudsman