

## **The complaint**

Mrs A complains that Bank of Scotland plc didn't treat her fairly when she had financial difficulties and asked for support with her mortgage.

Mrs A asks that Bank of Scotland capitalises her arrears and extends the term for at least five years at a reduced interest rate.

Mrs A has been represented in bringing this complaint. I will refer to the representative as C.

## **What happened**

Mrs A took out a mortgage with Bank of Scotland in 2007 on an interest only basis. The mortgage has been on Bank of Scotland's standard variable rate for some years. Mrs A says she asked Bank of Scotland for a reduced interest rate in mid-2023 when increases in interest rates caused her to struggle with her mortgage payments. Bank of Scotland offered a nil payment arrangement, but didn't reduce the interest rate.

Mrs A says she lost her income and needed support while she secured employment. She says Bank of Scotland told her to sell her property, and continued to tell her to sell the property when her income improved. Mrs A says her property didn't sell, despite changing agents and reducing the price. The term of Mrs A's mortgage expired in late 2024 with an unpaid balance and arrears.

Mrs A says this affected her health. She says if Bank of Scotland had offered support she wouldn't be facing homelessness.

Our investigator said Bank of Scotland had treated Mrs A fairly.

Mrs A didn't agree and asked that an ombudsman reconsider the 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.

We provide an informal dispute resolution service. I have to explain my reasons for reaching my decision about what's fair and reasonable in the circumstances. I don't have to respond to each point raised by the parties. Where the evidence is incomplete or contradictory, I make findings based on the balance of probabilities – that is, what I consider most likely based on the available evidence.

Mortgage interest rates, including Bank of Scotland's standard variable rate, have increased in recent years. This meant Mrs A's monthly payments increased. Mrs A contacted Bank of Scotland in mid-2023 as she was struggling with her payments.

Mrs A says she asked for a reduced interest rate. There's no requirement for Bank of Scotland to agree to this, although this is an option it can consider.

Bank of Scotland asked Mrs A for information about her income and expenditure. It offered a plan whereby Mrs A didn't have to make mortgage payments for two months, while she reviewed her finances. It said she could still make payments, if she was able to do so. I think this was fair. I don't think it's fair and reasonable to require Bank of Scotland to refund interest applied to Mrs A's account, or capitalise the arrears on the basis it should have offered her a reduced interest rate in 2023.

C says Bank of Scotland didn't offer support because Mrs A had a payment deferral during the Covid-19 pandemic, and increased her interest rate for the same reason. The available evidence doesn't support this. Bank of Scotland did offer support – the nil-payment plan.

C also says Bank of Scotland changed Mrs A's interest rate even when there were no changes to the Bank of England base rate. Mrs A doesn't have a tracker mortgage. When deciding to change its standard variable rate, Bank of Scotland can take into account factors in addition to changes in the Bank of England base rate.

In September 2024 Mrs A contacted Bank of Scotland again. She asked about extending the term and consolidating loans. Bank of Scotland said this wasn't an option at that time due to the remaining term, her age and the arrears, but she could discuss this with the end of term team nearer the time. Bank of Scotland offered to review Mrs A's income and expenditure again to see what support it can offer. Mrs A said she'd seek advice first.

In October 2024 Ms A asked that Bank of Scotland didn't report the arrears to the credit reference agencies as this would make it difficult to refinance – she said the mortgage charter allowed this. Mrs A said she'd be able to clear the arrears as she was soon to start a full time job. She was unhappy that she had to maintain payments for six months to be considered for capitalisation.

Mrs A was able to make her contractual monthly payments in late 2023 and early 2024 with a small amount towards the arrears.

Mrs A contacted Bank of Scotland in March 2024. She said she'd lost her job, couldn't afford the monthly payments and was trying to sell the property. Bank of Scotland agreed a plan for Mrs A to make no payments for three months. It said it could offer an assisted sale of property when the plan ended if she was still struggling to sell the property.

In mid-2024 Mrs A called Bank of Scotland about further support if she hadn't sold the property before the mortgage term expired. Bank of Scotland said it could hold action for 90 days if Mrs A provided information about the marketing of the property. Bank of Scotland has put holds on recovery action. Mrs A has not been able to sell the property.

#### *Term extension with reduced interest rate*

Bank of Scotland wrote to Mrs A, as I'd expect it to do, to remind her that her term was due to expire and the balance would be due in late 2024.

Mrs A contacted Bank of Scotland in mid-July 2023, as she was struggling with her payments. Bank of Scotland says the shortest fixed rate product available was for two years. There was less than 18 months left before Mrs A's mortgage term was due to expire.

Bank of Scotland couldn't offer Mrs A a preferential interest rate product in mid-2023 without extending the term. Even if a product with a shorter term had been available, the income and expenditure information Mrs A provided suggested that monthly payments might still have been unaffordable with a reduced rate. It might not be in Mrs A's best interests to take out a product with an early repayment charge when there's a risk of the property being sold during

the product term.

C says Bank of Scotland should have offered Mrs A a term extension on a reduced interest rate. Mrs A says extending the term would allow her to stay in the property and sell the property when the market picks up. She would then be able to downsize with the equity.

Rules on mortgage regulation require lenders to assess affordability before agreeing to offer or vary the terms of a mortgage. For an interest only mortgage this includes assessing whether the customer has a credible repayment vehicle. Extending the term is a variation of the mortgage contract, so this would require an affordability assessment. There are some exceptions to this which might allow Bank of Scotland to extend the term if this is in Mrs A's best interests.

Mrs A doesn't have a repayment vehicle, other than to sell the property. There's no evidence that she'd be in a better position to repay the mortgage after a term extension. The property market might not improve during a term extension. The income and expenditure information Mrs A provided in mid-2023 suggested that payments might not be affordable even with a lower interest rate. Mrs A was able to make some contractual monthly payments in late 2023 and early 2024. But she hasn't made a payment since February 2024. Her arrears increased to about £30,000 by mid-2025 – this will reduce the amount of equity when she sells the property. I can't fairly find that Bank of Scotland should have extended the term of Mrs A's mortgage in mid-2023, or that it would be in her best interests to do so now.

#### *Mortgage Charter*

The mortgage charter was brought in to help customers struggling with increases in the cost of living. Lenders that signed up to the charter can allow customers who are up to date with their payments to switch temporarily to interest only payments or extend the mortgage term to reduce their payments, without an affordability check or this affecting their credit files.

Mrs A's mortgage wasn't in arrears when she contacted Bank of Scotland in July 2023. But the options available under the mortgage charter wouldn't have helped her. Her mortgage was already on interest only terms. Extending the term would not have reduced her monthly payments in the same way as for a repayment mortgage.

I think it was fair for Bank of Scotland to ask Mrs A for information about her income and expenditure to that it could consider what support was appropriate. This is consistent with the mortgage charter, which says lenders will offer tailored support for anyone struggling and the right option will depend on the customer's circumstances.

#### *Credit file and remortgaging*

Bank of Scotland has a duty to report accurate and up to date information to the credit reference agencies. Bank of Scotland told Mrs A in July 2023 that her credit file might be impacted by the nil-payment plan. It told her on a number of occasions since then that her credit file might be affected.

In October 2024 Mrs A asked that Bank of Scotland didn't report the arrears to the credit reference agencies as this would make it difficult to refinance – she said the mortgage charter allowed this. As I said, the options under the mortgage charter to switch to interest only payments or extend the term to reduce monthly payments wouldn't have helped Mrs A.

The mortgage charter says customers can contact their lender for help and guidance without this impacting their credit files. It does not say that lenders shouldn't report mortgage arrears.

I understand that reporting the arrears impacted Mrs A's credit file and this could make it difficult to refinance. But the arrears came about because of Mrs A's financial difficulties, not because of an error by Bank of Scotland. Mrs A was unable to maintain her mortgage payments. She also had a second charge loan. Based on this, as well as the information Mrs A gave Bank of Scotland about her circumstances, it seems unlikely she'd have met another lender's affordability criteria. I can't fairly find that Bank of Scotland made an error when it reported Mrs A's mortgage as being in arrears, or that Mrs A was unable to remortgage due to an error by Bank of Scotland.

### *Recovery action*

Mrs A says Bank of Scotland told her in early 2024 to sell the property. She says she was in work again by April 2024 and Bank of Scotland should have offered a payment plan to clear the arrears instead of insisting she settle the mortgage through the sale of the property. She says this would have allowed her to re-mortgage.

That's not consistent with Bank of Scotland's records, or with Mrs A stopping payments in March 2024. I think Mrs A would have made payments to clear her arrears and improve her chances of remortgaging if she'd been in a position to do so.

Mrs A was upset to receive letters about possible action to recover the debt. Bank of Scotland didn't have to hold action until a complaint is resolved, although this is something lenders often do. Bank of Scotland told us it hasn't yet started legal action.

Mrs A says there's been no interest in the property, despite her changing agents and reducing the asking price. She says the estate agent advised her to take the property off the market in February 2025. Mrs A says she has a reasonable amount of equity in the property. She says she has a secure income and would be able to pay interest at a reasonable rate.

If Mrs A has sufficient equity in the property and can provide evidence of a secure income, options might be available to refinance, possibly with an equity release product or a lifetime mortgage. Mrs A could consider taking independent financial advice to explore her options.

I understand that Mrs A doesn't want to sell the property and that she will be disappointed with my decision. But I don't think Bank of Scotland has treated her unfairly. The term of Mrs A's mortgage expired in late 2024. She didn't make payments for over a year resulting in arrears of more than £30,000. She doesn't have a plan to repay the mortgage other than through the sale of the property. There's no guarantee Mrs A would find it easier to sell the property in future, or that her arrears won't increase further and erode her equity.

I don't think it's fair and reasonable in the circumstances to require Bank of Scotland to extend the term of Mrs A's mortgage, capitalise her arrears, hold recovery action indefinitely, or offer her a reduced interest rate until such time as she decides to market the property for sale again.

### **My final decision**

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 19 January 2026.

Ruth Stevenson  
**Ombudsman**