

## **The complaint**

Mr and Mrs W complain that Lloyds Bank PLC (Lloyds) are taking legal action to repossess their property following the expiry of their interest-only mortgage term after they were previously reassured that there was no urgency for them to repay the balance.

## **What happened**

Mr and Mrs W took out an interest-only mortgage of £720,000 in May 2006, for which the term expired on 31 May 2021. The balance is now over £800,000 and Lloyds is taking action to repossess the property.

Mr and Mrs W say that in the years leading up to maturity, Lloyds sent standard letters reminding them that the mortgage would expire and encouraged them to make arrangements to repay or remortgage. Once the term expired, they relied on repeated reassurances from Lloyds in 2021 and 2022 that it would work with them and that there was no immediate urgency to repay the balance. In February 2022, they say that a realistic refinancing option existed with another lender but they didn't pursue this as they relied on Lloyds' reassurance not to rush.

Mr and Mrs W say that they have engaged with Lloyds throughout, have maintained the monthly repayments and offered to make lump-sum payments to reduce the mortgage balance, which were rejected. They are unhappy that Lloyds would not agree to extend the term of the mortgage to allow them reasonable time to repay the balance before progressing enforcement action. They also say that Lloyds has not treated the mortgage as being regulated. Overall, Mr and Mrs W say that Lloyds has failed to treat them fairly in offering forbearance.

Mr and Mrs W also say that from April 2022, the mortgage payments were no longer covering the interest, but Lloyds did not explain this until August 2023, which created a prolonged period of silent underfunding where the remaining outstanding balance was increasing. They say that nobody advised them to increase their payments.

Mr and Mrs W would like Lloyds to withdraw the possession claim and offer them a five-year term extension so that they can stabilise their finances, consolidate assets and ultimately redeem the mortgage in full. They would also like Lloyds to compensate them for the legal costs, and for the distress and inconvenience caused.

Lloyds says that having looked at the overall history of the account, it feels that it has allowed enough time and solutions for Mr and Mrs W to redeem the mortgage balance. This has included a 'delay to repay' option when Mr and Mrs W were in the process of splitting the title and multiple holds on the account to allow for third-party involvement, marketing, and the potential sale of the property. Lloyds says that it has provided enough information to make Mr and Mrs W aware of the balance increase over the phone and in writing in order to avoid this from happening. It also disagrees that it has provided misleading advice or information or that it dissuaded Mr and Mrs W from completing a remortgage with another lender.

Our Investigator looked into Mr and Mrs W's complaint and concluded that Lloyds had tried to support Mr and Mrs W as best as possible since their mortgage term expired. It had applied holds to the account so that multiple avenues could be explored to repay the funds and requested income and expenditure (I&E) assessments to see whether other support

could be utilised. However, due to the time that had passed since the mortgage term ended, the increasing balance, and Mr and Mrs W not having the funds available to repay it, the Investigator concluded that Lloyds was not unreasonable in progressing legal action. He did not think Lloyds' decision not to extend the mortgage term was unreasonable.

The Investigator was satisfied that Lloyds had contacted Mr and Mrs W regarding the payment vehicle they were going to use to pay the outstanding funds at the end of the term. He was not persuaded that Lloyds had failed to adequately keep Mr and Mrs W up to date about the legal action. He also said that he could not hold Lloyds responsible if Mr and Mrs W did not explore remortgaging options elsewhere.

In respect of the underfunding issue, the Investigator noted that there was around a year where the balance was increasing due to the monthly payments being insufficient and before Lloyds made Mr and Mrs W aware of this. However, once they had been made aware, they did not make changes to their payments. Therefore, the Investigator was not persuaded that any changes would have been made if Mr and Mrs W had been made aware at an earlier date and did not ask Lloyds to take any action in respect of this.

Mr and Mrs W disagree with this, so the case has come to me to make a decision. They say that a workable and proportionate outcome remains available where the balance could be reduced by sale or refinance given time and they want a reasonable opportunity to resolve the issue in this way. They say that there has not been meaningful time, particularly given that a substantial portion of the period fell within the immediate post-Covid years. Mr and Mrs W say that their request to extend the mortgage term and gradually repay the remaining balance is in line with regulator's guidance on treating interest-only customers fairly at end of the term.

Mr and Mrs W say that they have remained in ongoing dialogue with Lloyds, continued making monthly payments and relied on communications from Lloyds which implied that the matter could be managed sensibly once circumstances stabilised. They say that their decision not to remortgage the property through a different lender was not because they were unable to do so but because they relied on Lloyds' implied reassurances that a sensible solution could be reached. They also say that substantial lump sum offers in December 2024 and May 2025 demonstrated repayment capacity but did not result in enforcement action being paused or reconsidered.

Mr and Mrs W disagree with the Investigator that they would not have increased their payments if they were told about the underfunding sooner; they say that earlier disclosure of the underfunding would have presented materially different options, including refinancing, payment adjustment or alternative asset sequencing.

### **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.

Having looked at the evidence, I agree with the Investigator's view for broadly the same reasons and I've explained my reasons further below.

I've given careful consideration to all the submissions made by both parties, but I won't address each and every point that has been raised. I'll focus on the matters that I consider most relevant to how I've reached a fair outcome in keeping with the informal nature of our Service.

The term for Mr and Mrs W's interest-only mortgage expired in May 2021, which meant that the full balance became due at this point under the mortgage contract. Mr and Mrs W have been unable to repay the balance, so I've considered what forbearance Lloyds has offered to them since May 2021.

Where a customer is having payment difficulties, we'd expect a lender to treat them fairly, discussing their circumstances with them and trying to get the mortgage back on track. The Mortgages and Home Finance: Conduct of Business Sourcebook (known as MCOB) sets out at Rule 13.3 what lenders are required to do to help borrowers where there is a payment shortfall. It would usually be reasonable for a lender to consider ways to resolve a situation where a borrower is having payment difficulties, having regard to their individual circumstances. Such measures might include allowing a reasonable time over which any payment shortfall should be repaid or, where no reasonable payment arrangement can be made, allowing the customer to remain in possession of the property for a reasonable period to effect a sale. Repossession should only be a last resort where all other reasonable attempts to resolve the position have failed.

Balanced against that is the lender's obligation to ensure that any arrangement is affordable and sustainable. The requirement for a lender to try to help a borrower doesn't mean that a consumer should be given whatever they ask for, but rather the lender needs to determine if it can put forward any proposals that will actually help the consumer and not just postpone the inevitable if the mortgage isn't and won't be affordable going forward.

When Mr and Mrs W took out the mortgage in 2006, they indicated that they intended to repay the mortgage using investments.

I can see that Lloyds wrote to Mr and Mrs W in June 2018 to remind them that they would need to pay off the balance by the term end day in May 2021. The letter asked Mr and Mrs W to tell Lloyds about the repayment plans they had in place to make the lump-sum payment. So I am satisfied that Lloyds engaged with Mr and Mrs W in advance of the term expiring to discuss how the funds were going to be repaid. I can't see that Mr and Mrs W responded at this time to notify Lloyds that their plan to use investments to repay the balance had changed.

Mr W spoke to Lloyds in June 2020 and said that he was planning to repay the loan by selling his business. He said that he also had a financial interest in a property being renovated and owned a retail business that he was in the process of selling, but this had been impacted by the Covid pandemic. Lloyds explained that it would need evidence in relation to the sale of the land or business then it could consider a grace period hold for up to 12 months once the term had expired. So, although the term had not yet expired, I think Lloyds acted reasonably here in indicating that it would be prepared to support Mr and Mrs W by giving them more time if they were unable to pay the balance when it was due.

Mr W spoke with Lloyds in February 2021 to inform it that he was splitting the land from the title and was then looking to retain the land and sell the property to clear the mortgage balance. At this stage, Lloyds put a hold on the account until the end of October 2021. Again, I think Lloyds acted fairly in giving Mr W more time so that the title could be split before the property was sold.

In January 2022, Mr W spoke with Lloyds to inform it that he had split the title deeds and that he wanted to build a new property on the land for them to move into. He indicated that he this would take around 18 months to two years and that he didn't want to sell the mortgaged property until the new property was built, so wanted to extend the term. He indicated that he would send a letter of authority (LOA) for Lloyds to speak with his financial adviser, who had all the financial details. A hold was placed on the account for a month to await the receipt of the LOA and for the financial adviser to call with the income details.

In February 2022, Lloyds indicated that it hadn't received the LOA. I can see from the contact notes that Lloyds explained that it would need information regarding Mr and Mrs W's income and outgoings and Mr W said that he would call back to do the review. However, I can't see that there was any further communication regarding this. I think it was reasonable for Lloyds to want to assess Mr and Mrs W's I&E in order to see what options were available to support them.

Mr and Mrs W have said that they had the option of remortgaging elsewhere in 2022 but believed that continuing with Lloyds would be more straightforward and cooperative. They say that they didn't decide not to remortgage because they were unable to do so but due to Lloyds' reassurance that they didn't have to rush.

Mr and Mrs W have provided copies of buy to let (BTL) mortgage illustrations from February 2022 and June 2022. However, the first mention I have been able to find in the contact records in respect of a remortgage is on 30 June 2023, when Mr and Mrs W's mortgage adviser called with an update that Mr and Mrs W had an agreement in principle for another mortgage. Lloyds advised that it could not apply a hold at that stage but could seek authorisation for this when it received evidence, albeit this was not guaranteed. I can't see that any evidence in respect of the agreement in principle was received.

Overall, I am not persuaded that Lloyds is responsible for Mr and Mrs W's decision not to remortgage to a different lender. They were aware that the term had expired over two years prior to this and that the balance was owed. By this stage, Lloyds had given Mr and Mrs W more time to repay the balance based on their assurance that they were splitting the title so that the property could be sold. Following this, Mr and Mrs W had requested a term extension as they did not want to sell the property until they had built a new property on the land which had been split from the title, and Lloyds had requested details of their I&E, which had not been provided.

Whilst Lloyds was still trying to support Mr and Mrs W with their plans to repay the balance, I don't think it did anything to suggest that they should not remortgage if they had a mortgage offer which would enable them to redeem the mortgage (albeit I have only seen a mortgage illustration, which is not a guaranteed that they would have received the funds). I also note that there is no further mention in respect of plans to remortgage until December 2024, when Mr and Mrs W's financial adviser mentioned to Lloyds that they had no options to remortgage due to there not being enough equity in the property.

On 20 July 2023, Lloyds sent Mr and Mrs W a final warning letter informing them that it would start legal action in 15 business days if it hadn't heard from them in respect of a repayment plan.

On 1 August 2023, Mr W advised Lloyds that he was selling some land for £1.75 million but that this would not complete until January 2024. Mr W was advised at this stage regarding the monthly repayment not being recalculated and said that he was fully aware of the balance increasing. On 4 August 2023, Mr W sent Lloyds a copy of the head of terms for the sale of the land (dated 30 January 2023). On 9 August 2023, Mr W contacted Lloyds and was made aware that it would need to do an I&E to look at the options; he agreed to call back the following day as he was at work and was made aware to call back as soon as possible as the next step would be instructing solicitors. I can't see that any further information was provided at this stage in respect of Mr and Mrs W's I&E.

On 17 August 2023, Mr W advised Lloyds that he had put his property up for sale, which he said couldn't have been done previously as he was waiting for the Land Registry to split the title deeds. On 29 August 2023, Mr W provided evidence that he was selling his property and Lloyds agreed to give him a six-month sale of property hold on this basis until 29 February 2024. This was later extended for a further six months.

Mr and Mrs W have said in response to the Investigator's view that Lloyds granting the 12-month hold meant that it accepted their repayment plan as credible, which contradicts Lloyds' later assertion that no realistic plan existed. I disagree with this. Mr W had told Lloyds in February 2021 that he was waiting for the title to be split so the property could be sold, and in January 2022 he made Lloyds aware that the title deeds had now been split. However, it was only in August 2023 that the property was first put on the market to be sold.

Although Lloyds had already sent a final warning letter by this stage, once evidence was provided that the property was on the market, Lloyds was able to offer a hold to give time for

the sale. I am satisfied that Lloyds was offering appropriate forbearance at this stage and actively supporting Mr and Mrs W in giving them further time to repay the balance by selling the property.

In June 2024, Lloyds sent an agent to the property. Mr W contacted Lloyds following this and explained that the property had been taken off the market and that he was looking to remarket with a new agent at a reduced price. Mr W also said that he had another property worth £200,000 which he could sell to reduce the balance. At this stage, Mr W indicated that he would look at a term extension and he was advised that he would need to complete an I&E assessment to see if this was possible.

On 26 July 2024, Lloyds wrote to Mr and Mrs W informing them that it would start legal action in 15 business days if it hadn't heard from them in respect of a repayment plan.

An I&E assessment was carried out in August 2024 which indicated that a term extension was not affordable. Mr W indicated that it had always been his plan to sell the property and move to a smaller property but that things changed due to Covid and he tied his money up in other things.

On 28 November 2024, Lloyds wrote to Mr and Mrs W informing them that it was starting legal action to repossess the property. On 2 December 2024, Lloyds' solicitors sent them a letter before action with a final demand for payment of the outstanding balance.

Mr and Mrs W have said that they have several potential sources of capital which could have been used to reduce the mortgage balance, had Lloyds acted reasonably by granting a workable term extension, forbearance period or sufficient time for an orderly solution to be implemented.

I accept that Mr and Mrs W communicated with Lloyds about potential plans to repay the balance but none of those plans had come to fruition and the balance was increasing. Lloyds put a hold on the account until October 2021 for the title to be split as Mr and Mrs W indicated that they wanted to do this before selling the property. In January 2022, they indicated that they wanted to build on the land before selling the property and that this would take 18 months to two years. In August 2023, they told Lloyds that they were selling some land but this would not complete until January 2024. In August 2023 a further hold was put on the account as the mortgaged property was put on the market. Mr W had also indicated in June 2024 that he would sell other assets. However, none of the balance had been repaid by November 2024 and it had increased by around £75,000 compared to the amount borrowed due to unpaid interest.

On this basis, I think Lloyds has provided appropriate forbearance and I don't think it was unreasonable for Lloyds to commence legal action at this stage. Whilst I understand that Mr and Mrs W feel that they just need more time to redeem the mortgage, at this point it was three and a half years since the term ended and there was no evidence that any of their plans for repayment had progressed. So I think Lloyds had already given Mr and Mrs W a reasonable time to repay the mortgage.

Whilst Lloyds considered offering a term extension, the I&E showed that this was unaffordable for Mr and Mrs W and there was still no firm plan for how the balance would be repaid at the end of the extended term. Had Lloyds extended the term and Mr and Mrs W were still unable to repay the balance, then this would not have been in their best interests as they would have been in a worse position as they would have been paying more interest with no plan to pay off the balance. So I don't think it was unreasonable for Lloyds not to offer a term extension in the circumstances.

Mr W contacted Lloyds on 5 December 2024 following receipt of the letter before action. He said that he could make a repayment of £100,000 immediately to reduce the mortgage and avoid legal action and asked if Lloyds could put a hold on repossession proceedings. It was explained that no further holds could be applied. Mr W's financial adviser also spoke with

Lloyds and explained that due to the lack of equity in the property there weren't any options available in terms of remortgaging. Lloyds explained that there was a large amount of underfunding every month as the direct debit wouldn't be recalculated after the term end, so the balance was increasing. Mr W's financial adviser explained that he understood this which is why they wanted to offer £100,000 to reduce the balance.

Over the next few months, Mr W told Lloyds that the property and land were still on the market and that he had other assets which required liquidating to redeem the mortgage but that this would take time. He said that he was going to act on an offer made on the land and that he would prefer to use the money from the sale of the land rather than the property as he wanted to remain in the property.

In May 2025, Mr W contacted Lloyds to say that he may be able to pay £150,000 towards the balance. At this stage, Lloyds carried out another I&E based on the potential reduced balance however a term extension was still unaffordable.

Mr and Mrs W are unhappy that Lloyds would not pause possession proceedings based on their offers to pay the lump sums.

Whilst I accept that the offers were for significant amounts of money, even if they had been paid there would still have been a substantial proportion of the balance outstanding with no tangible repayment plan. Mr and Mrs W could still have made payments towards the balance and there is no evidence to suggest that Lloyds declined to accept these payments, it simply explained that the legal proceedings would still progress. This was not unreasonable given that the full amount was outstanding and had been owed for over three and a half years by this point.

Mr and Mrs W are concerned that the court documents refer to the mortgage as being unregulated when it is regulated under MCOB. They say that Lloyds has misclassified their mortgage as unregulated which could mislead the court into thinking that no regulatory protections applied.

I have looked at the Particulars of Claim dated 21 March 2025. This has a section for Lloyds to complete in relation to the mortgage where they had to select between two statements; one saying that the loan agreement is a regulated consumer credit agreement and one saying that it isn't. Mr and Mrs W's loan agreement is not a regulated credit agreement under the Consumer Credit Act so I am satisfied that the correct option was selected on the form and that the court would be aware that the mortgage was regulated under MCOB.

Lloyds has explained that once the mortgage expires, the contractual monthly payment (CMP) is not recalculated in line with changing interest rates as the whole balance becomes due and is expected. The direct debit amount will therefore remain the same as it was when the term expired but interest is still charged on the balance.

I can see that from April 2022, Mr and Mrs W's payments were no longer covering the interest on the mortgage, which means that the outstanding balance was increasing. The first mention I can see of this on the contact notes is in August 2023. So there were potentially around 16 months where the outstanding balance was increasing due to insufficient payments before Lloyds made Mr and Mrs W aware of the position.

In response to the Investigator's view, Mr and Mrs W have said that when the underfunding was raised, they asked whether making increased payments would make any difference and Lloyds said that this would not affect the outcome or the status of the account. They say that they didn't make overpayments as they expected Lloyds to engage on a plan going forward and they were never instructed to increase payments.

I can see that when Lloyds advised Mr W on 1 August 2023 that the monthly repayment was not being recalculated, he said that he was fully aware of the balance increasing. The issue was also mentioned during calls on 13 June, 16 September and 18 November 2024. Likewise, the significant amount of underfunding due to the CMP not being recalculated was

mentioned and increasing balance was mentioned to Mr W's financial adviser on 5 December 2024, and he explained that he understood this which is why they wanted to offer £100,000 to reduce the balance.

So even after Lloyds made Mr and Mrs W aware that the balance was increasing due to the underfunding, they did not take any steps to make higher payments to stop this from happening. It wasn't Lloyds' responsibility to instruct them to do this. Although their financial adviser said in December 2024 that they wanted to make an offer to reduce the balance, this appears to have been contingent on Lloyds stopping legal action and no payment was ultimately made. In light of the above, I am not persuaded that Mr and Mrs W would have changed their payments sooner even if they had been aware of the underfunding earlier. And I'm not going to ask Lloyds to take any further action in respect of this.

Whilst I acknowledge that Mr and Mrs W would prefer not to sell their property to settle the mortgage balance, I don't think that it is unfair that Lloyds has now taken legal action to repossess the property. It has allowed them extra time based on what they said their plans were to repay the balance by selling the property or other assets. Despite this, the full balance remains on the mortgage account. Lloyds also looked into extending the term but this was unaffordable for Mr and Mrs W. So I think Lloyds was acting in Mr and Mrs W's best interests by not coming to an arrangement which they were unable to afford, particularly given that the outstanding balance was increasing.

I understand that Mr and Mrs W have been through a difficult time and that they have been unable to release the capital to repay the mortgage balance. So I'd expect Lloyds to treat them fairly and show forbearance in such a situation, and I'm satisfied it did that.

I know my decision will come as a disappointment to Mr and Mrs W, but I can't say that Lloyds has acted unreasonably in the circumstances of this case, and I don't uphold this complaint.

### **My final decision**

For the reasons I've explained above, I don't uphold this complaint and don't require Lloyds Bank PLC to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W to accept or reject my decision before 13 May 2026.

Rachel Ellis  
**Ombudsman**