

complaint

Mr and Mrs F complain that Lloyds Bank Plc mis-sold them an interest-only mortgage. They also complain that they are left with a balance of around £25,000 still to pay after their request to change this sum to be on repayment terms went unanswered.

Mr F has led the complaint throughout.

background

In 1982 Mr and Mrs F took out an interest only mortgage with an endowment policy. Around 2006, Mr and Mrs F took out further borrowing for home improvements and later that year, switched part of their mortgage to repayment terms.

By 2006, the mortgage was split into five sub accounts. The repayment parts of the mortgage had a term of 10 years, and the interest only parts had a term remaining of one year and six months so were due to end in 2007. The term for the interest only parts was then extended until 2013 and Lloyds Bank contacted Mr and Mrs F to ask for payment by September 2013.

Mr and Mrs F wrote back explaining that they would not be able to meet this timeframe and that they thought the end of the term would have been the same as for the repayment part in 2016 and so asked for the term to be extended until this point, or at least for a further 12 months to allow them time to repay. This letter went unanswered.

In 2014, Mr F wrote to Lloyds Bank again to ask for the mortgage to be changed to repayment terms and to keep his payments of £510. Again, this appears to have been unanswered and later that year Lloyds wrote to them to explain that the term had expired and that they needed to contact it to discuss how to repay this.

Lloyds Bank instructed a field agent in early 2015 who visited Mr and Mrs F at their home. Mr F remembers this visit and explains that they discussed transferring the mortgage to repayment terms and completing an income and expenditure report. He says that the field agent told him he thought it likely this could be agreed. Lloyds Bank have provided records to show this meeting took place, but it has no record of what was discussed or agreed.

Lloyds Bank sent a letter in 2016 which explained that a sub account of the mortgage had been fully repaid and that their new monthly payment would be around £50. Mr F explains that he thought this meant his mortgage was repaid in full and that this lower payment was to cover the smaller mortgage taken out for home improvements.

In 2018, Lloyds Bank sent a letter to Mr and Mrs F reminding them that the term had ended and asking them to get in touch to discuss how they would repay their interest only mortgage. Mr and Mrs F raised a complaint.

In September 2018, Lloyds Bank answered the complaint and said it found the letters Mr F had sent asking to change to repayment terms in 2013 and 2014 and apologised for not responding. It offered £200 in recognition of the trouble and upset this caused. Lloyds Bank also said that changes to the mortgage would not have been possible without a meeting to discuss how affordable it would be. It clarified that the letter in 2016 notified them that a sub account had been repaid – not the whole mortgage – and that their yearly statements showed the outstanding balance and payments to the mortgage.

Mr and Mrs F were unhappy with this response so brought the complaint to this service. Our investigator considered it and thought that the first part of the complaint was out of time under the relevant rules. He thought that the remaining sum of around £25,000 should be paid but concluded that Lloyds Bank should give Mr and Mrs F six months to explore how to do this, whether it be with Lloyds Bank or through other avenues. He also recommended that Lloyds Bank pay Mr and Mrs F £500 for the trouble and upset caused by not responding to their letters.

Neither party agreed to this settlement and so the case has been passed to me to decide.

my findings

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

What I can't consider

The first part of the complaint about the mis-sale of the mortgage has been brought too late under the relevant rules. I can see that our investigator has already explained this and that Mr and Mrs F have accepted these conclusions. I've reviewed this and agree that this part of the complaint has been made too late.

So what is left to decide is the complaint that Mr and Mrs F have brought about the amount that remains outstanding and Lloyds Bank's failure to respond to their request to switch this to repayment terms.

End of term

The term of the interest only borrowing ended in 2013. The statements in 2011 and 2012 show a remaining term of eight months but this looks to be because in 2012 it was extended for a further year. From the information I've seen, it's not clear what specifically prompted this letter in July 2018 to be sent asking for information on how they intended to repay the outstanding balance as Lloyds Bank doesn't appear to have taken further steps to recover the balance following the field agent visit in 2015.

Whilst I appreciate that this has been confusing, and that Mr and Mrs F's letters went unanswered - they have had use of these funds and so I think it's only fair that they be repaid. I don't think Lloyds Bank's lack of response to their requests means that this debt should be cleared in any way and even though some years have passed since the term expired, as the debt remains outstanding - Lloyds Bank are still entitled to pursue this at any time.

It's a shame that these letters in 2013 and 2014 were not responded to and that the opportunity to explore what Mr and Mrs F's options could have been was missed at this stage. I think they should be fairly compensated for this - which I'll come onto later.

But for Mr and Mrs F to change their mortgage from interest only to repayment terms, they would have needed to complete an application and provide information for Lloyds Bank to assess if it would have been affordable - or for it to be satisfied the change was otherwise in their best interests. I've not seen anything to suggest an application ever happened and, as has been established, the letters requesting this were not responded to.

I've reviewed what Mr F has said about the field agent visit and understand why he thought the change could take place following the discussions. But Mr F recalls the field agent saying that he himself thought that making the change wouldn't be a problem, not that Lloyds Bank would approve it. And if it were to have been accepted, I think it's reasonable to have expected to receive some communication from Lloyds Bank directly confirming this.

I can understand why Mr F thought the letter in 2016 said that his mortgage had been repaid in full. But this was in relation to a sub account and confirmed the lower payment of around £50 going forwards. So I don't think this letter said that the mortgage was repaid in full.

Putting things right

I've thought about whether the account should be reworked to put Mr and Mrs F in the position that they would have been in had their request in 2013 been agreed.

Lloyds Bank has provided calculations to show the monthly sum and term required to clear the balance, had the request been explored. If the payments were to have been kept at £510 as Mr F had asked, Lloyds Bank has said that it would have been unaffordable based on the term remaining.

To keep the monthly payment at the same level, Lloyds Bank said the term would need to have been extended by six years and that this would have taken them into Mr and Mrs F's retirement age so it would have needed evidence from them to confirm they could repay the mortgage in retirement before anything was agreed. Considering this I don't think this would be a suitable resolution to the complaint. For the same reasons, I don't think the account should be reworked from 2015 following the field agent visit.

The responsibility to engage with a plan to repay this debt lies with both parties and whilst Lloyds Bank didn't reply to Mr and Mrs F's letters, there still needs to be engagement from both sides to address this sum. As Lloyds has now found these letters and the complaint has brought to light the issues, it is a good opportunity for both parties to have an open dialogue to address this debt.

There could be other options available to Mr and Mrs F and whilst I take their point that they have lost confidence in Lloyds Bank following their experiences, I would encourage them to engage with it to discuss options to repay this amount. For example, they may wish to look into a retirement interest only mortgage - I'm aware that Lloyd Bank offers such products. It's not the role of this service to provide financial advice and I think it could be beneficial for Mr and Mrs F to speak to an independent financial adviser about their options. They may also wish to look into their options with other lenders.

Having considered everything, I'm in agreement with our investigator that six months is a reasonable timeframe to allow Mr and Mrs F to consider their options and agree a way to address the outstanding balance, particularly as the sum owed has remained outstanding but not actively pursued by Lloyds Bank for some years. I'm also mindful that Mr F's circumstances have changed due to the Covid -19 pandemic and given the uncertainty of the current times, this six-month period allows them sufficient time to consider their options and put a plan in place.

I've noted Lloyds Banks comments that this wouldn't be treating them fairly as Lloyds Bank might be able to offer them further time if Mr and Mrs F speak with them. This might be the case but this timeframe is for Mr and Mrs F to decide how to address the debt, whether this be with Lloyds Bank or through other avenues.

As this time is intended as a grace period, I think it would be fair for Lloyds Bank to freeze any further interest on this account for the six-month period from the time Mr and Mrs F accept my decision, if they chose to do so.

Whilst I take Lloyds Bank's point that this sum has been outstanding for some years – due to a lack of response or contact Mr and Mrs F have drawn their own conclusions about the mortgage until the letter in 2018. I think that this six-month period is fair as it provides a point in time, and a reasonable timeframe for a plan to be made to address the outstanding debt, whilst also allowing Mr and Mrs F – who are currently retired – some breathing space to consider what options are available for them in their particular circumstances.

Trouble and upset

As I've said, I think Mr and Mrs F should be paid an award in recognition of the lack of response to their letters and Lloyds Banks' apparent failure to contact them following the field agent visit. Mr and Mrs F thought that the mortgage had been repaid so I think the letter in July 2018 asking for information about their plans to repay the sum of around £25,000 would have been difficult news to receive.

I don't think that Lloyds Bank's offer of £200 goes far enough to address the trouble and upset the lack of response to their requests caused, and the missed opportunity to address the debt at an earlier stage.

I've thought about what an appropriate award would be. It's clear that Mr and Mrs F tried to engage with Lloyds on numerous occasions to resolve the issue of repayment but were met with no response for a period of around two years. I also think that, having instructed the field agent in 2015, Lloyds would have contacted Mr and Mrs F to discuss the findings. As I've said, the lack of response has meant that Mr and Mrs F have drawn their own conclusions and now need to address the balance in retirement. For these reasons, I think a sum of £500 is fair in the circumstances.

I've taken Mr F's points into consideration that he feels more should be paid as he's felt unfairly treated for the last eight years. I agree that Lloyds Bank could have treated them better, but I've kept in mind that the mortgage term ended some years ago and Lloyds Bank has not pursued action to date to recover the outstanding debt.

Conclusions

I think a timeframe of six months – particularly considering the current covid-19 pandemic - is reasonable for the reasons I've explained. Whilst I can't direct Mr and Mrs F to do so, I recommend that they use this time to engage with Lloyds Bank to consider their options to repay the amount outstanding and if this is not possible then to use the time to explore other avenues and come up with a plan to address the balance. And if, within that time, Mr and

Mrs F identify a credible plan to repay the mortgage, Lloyds should allow them a reasonable time to execute that plan even if that goes beyond the six months.

my final decision

For the reasons I've given, I uphold this complaint against Lloyds Bank Plc.

I direct Lloyds Bank Plc to:

- not apply additional interest to the account and take no action regarding the outstanding sum owed for six calendar months from the date that Mr and Mrs F accept my final decision – if they chose to
- pay Mr and Mrs F £500 in recognition of the trouble and upset caused by this matter

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs F to accept or reject my decision before 26 April 2021.

Camilla Finnigan
ombudsman