

complaint

Mr and Mrs B complain that West Bromwich Building Society declined their application to switch their repayment mortgage to interest only.

At the time of applying, Mr and Mrs B said they were planning on reducing their working hours so wanted to lower their monthly payments. They said they don't understand why West Bromwich declined the request on affordability grounds when they were already struggling to make their contractual monthly payments and switching to interest only would have lowered these.

Mrs B has handled the complaint throughout.

background

Mr and Mrs B took out a capital repayment mortgage with West Bromwich in 2009 for £337,202 over a term of 18 years.

In July 2018, Mrs B approached West Bromwich to switch her mortgage to interest only as both she and her husband were planning on reducing their working hours.

West Bromwich declined the request as Mr and Mrs B's application didn't meet the affordability criteria based on their income and expenditure – and it had concerns about the level of unsecured debt.

Mrs B has said that they felt let down by West Bromwich because the society didn't help them when they were struggling to make their full contractual monthly payments. She says she requested to switch from a repayment mortgage which was costing them around £1,200 a month to an interest only one at around £200 per month and don't understand how it was fair for West Bromwich to decline this based on the affordability criteria.

They've said that whilst they were maintaining their contractual monthly payment, they were finding this difficult and dipping into their savings to do so – and they felt let down that West Bromwich didn't help them.

Because West Bromwich declined their application, Mr and Mrs B redeemed their mortgage. They have since taken an interest only mortgage with a different provider and have said that they are on a worse rate than they would have been with West Bromwich and they had to pay an arrangement fee. They would like West Bromwich to compensate them for the stress caused, as well as the financial cost involved in taking a mortgage elsewhere.

Our investigator didn't think the complaint should be upheld. She concluded that West Bromwich hadn't acted unfairly in declining the application Mr and Mrs B disagreed and asked for an ombudsman to look at the complaint.

my findings

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

affordability assessment

When Mrs B first contacted West Bromwich to apply to switch the mortgage to interest only, she was asked what the repayment strategy would be. West Bromwich explained that they needed to see a credible plan, such as cash-based investments that could be relied upon to repay the mortgage at the end of the term, in order to approve the switch. Mrs B said that they have investments in the form of classic cars that are worth around £60,000 but West Bromwich confirmed that this wouldn't fit their criteria as a credible repayment plan.

Mrs B suggested that they could sell the house to repay the mortgage at the end of the term as they had a good level of equity in the property. West Bromwich explained that it is generally not in their policy to rely on the sale of a property as a repayment vehicle but in this case allowed it as Mr and Mrs B held sufficient equity in the property. I consider they managed Mrs B's expectations well at this early stage.

Because they allowed the application to proceed, West Bromwich should give the request to switch to interest-only fair consideration, and as part of this, they chose to carry out an affordability assessment to see if this would have been suitable in Mr and Mrs B's circumstances.

Following a review of the mortgage market, new rules came into force in April 2014 which require lenders to conduct a detailed affordability assessment. This includes a review of a borrower's income and expenditure, as well as any debts. Although Mr and Mrs B held an existing mortgage with West Bromwich, and the rules allow lenders to set aside affordability requirements for existing customers in some circumstances, that doesn't apply where they were making a material change to the terms of their mortgage – unless the change was otherwise in their best interests.

West Bromwich declined their application to switch because, based on Mr and Mrs B's income and expenditure, they didn't think the mortgage would be affordable in the long run. The assessment showed their income as being a lot lower than what West Bromwich held on file and, on querying this, Mrs B said both her and her husband were already working part time and that she hadn't taken a salary for a while. West Bromwich also considered that Mr and Mrs B had a high level of unsecured debt.

So due to Mr and Mrs B's circumstances, West Bromwich declined the application.

would it have been in Mr and Mrs B's best interests to approve the application?

There are provisions in the relevant rules (referred to as *transitional arrangements* – MCOB 11.7) that say that a lender can set aside the results of an affordability assessment and approve an application for customers in Mr and Mrs B's circumstances- provided it would otherwise be in their best interests to allow the application.

So, I've considered whether West Bromwich acted fairly by using the results of the affordability assessment to refuse the application, when it could have been in Mr and Mrs B's best interests to allow it.

I understand Mr and Mrs B's point that it seems illogical to decline their request as they were struggling to make their monthly payments and switching to interest only would have reduced these. But they didn't apply for a short-term measure, what they asked for was a *permanent change* to their mortgage, so I think it reasonable for affordability to be considered over the term of the mortgage. Whilst switching to an interest only mortgage may have provided some relief in the short term by reducing the monthly payments, the capital of the mortgage does still need to be repaid at the end of the term- and would continue to attract interest.

I acknowledge Mrs B's frustrations and am mindful of the fact that she was doing all she could to meet the monthly payments- including dipping into their savings. But if West Bromwich were to approve the application, they would have only been delaying the issue and adding to the debt in the long run. I don't consider that it would have been in Mr and Mrs B's best interests to allow the switch.

And here, affordability based on their income wasn't the only reason West Bromwich refused the application, it was also for the wider issue of credit risk- including, but not limited to their other debts. As the unsecured debt stood at around £30,000 and Mr and Mrs B were not prepared to realise other assets, such as selling the vintage cars, West Bromwich declined the application.

I don't consider that West Bromwich acted unfairly here. I say this as it wouldn't have been fair to allow Mr and Mrs B to switch to interest only knowing they had debts that would make it difficult for them to keep up with mortgage payments. If they could not maintain their payments or pay off the mortgage at the end of the term then they risk losing their home, which I don't consider is in their best interests.

short term considerations

Whilst West Bromwich said that they would not approve a permanent switch from repayment to interest only, it did make a different proposal to Mr and Mrs B to try to help them with their situation.

This was a short-term switch to interest-only until Mr and Mrs B's deal ended, provided the credit card debt was cleared before the switch completed. I've listened to the conversation the adviser had with Mrs B about this and understand that this was considered but that Mrs B wasn't keen to do this as it didn't guarantee that they could switch.

The adviser did ask if Mrs B wanted the application to be reconsidered on the condition of the debts being repaid, but Mrs B didn't want to proceed. Mr and Mrs B did have assets in the form of vintage cars that they've said were worth more than the credit card debt. So, it was an option to sell these to pay off the unsecured debt. As Mrs B was reluctant to do this, I don't think West Bromwich treated her unfairly here, they suggested an option to help them in their current situation. As Mrs B wasn't keen to proceed with the application on the condition that the unsecured debt was paid off, I wouldn't expect West Bromwich to do anything further.

conclusions

Taking everything into account, I don't think West Bromwich acted unfairly in this case. I think it managed Mr and Mrs B's expectations well, gave their application fair consideration and tried to propose solutions to help in the short term when the application was declined.

So I don't think it would be fair to uphold this complaint and I won't be asking West Bromwich to do anything further.

my final decision

For the reasons I've given, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs B to accept or reject my decision before 4 March 2020.

Camilla Finnigan
ombudsman