

The complaint

Mr and Mrs R say that Lloyds Bank PLC has failed to offer them any support in their plans to move house, downsize to a smaller property and reduce their mortgage from £342,000 to £100,000.

To resolve the complaint, Mr and Ms R want Lloyds to support them with a new mortgage to allow them to move to a cheaper property. They also want Lloyds to compensate them and refund interest for all the years on an interest-only mortgage that they say they have been forced to pay.

What happened

I will summarise the complaint in less detail than it's been presented. There are several reasons for this. First of all, the history of the matter is set out in detail in correspondence, and in a call recording that has been provided to Mr and Mrs R, so there is no need for me to repeat the details here. I will instead concentrate on giving the reasons for my decision. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs R being identified. So for these reasons, I will keep my summary of what happened quite brief.

Mr and Mrs R have a mortgage with Lloyds, taken out through its residential lending division, Cheltenham & Gloucester, in 2007. They borrowed £360,000 of which £17,000 was on a capital repayment basis over ten years and the remainder, about £344,000, on an interest-only basis over 25 years. The mortgage was initially on a fixed rate, following which it reverted to Standard Variable Rate (SVR). The mortgage offer states that if Mr and Mrs R move house, provided Lloyds is satisfied with the new property and the repayments are affordable, the terms of the mortgage can be transferred onto another mortgage on the new property.

In July 2022 Mr and Mrs R raised a complaint with Lloyds. They said:

- in 2011 they were refused a new, smaller, mortgage when they tried to move to a cheaper property;
- in 2019 they tried to apply for another mortgage but had a bad video connection. Nobody from Lloyds contacted them after this;
- on 2 July 2022 they spoke to a Lloyds' adviser about downsizing to a smaller property and reducing their mortgage. The bank *"was not forthcoming with help for us and the figures being offered, and also suggested that the terms would change by bringing the mortgage forward by 4 years. This is not what we wanted and indeed makes the solution which we keep trying to do even harder."*

Mr and Mrs R say that they believe the bank owes them some *"favourable support"* and should give them a new mortgage to enable them to move to a cheaper property, and to keep their mortgage for the original term, until they are 74. They say that Lloyds has kept them on the larger mortgage for 11 years, forcing them to pay additional interest.

In its final response letter, Lloyds confirmed that Mr and Mrs R could port their mortgage terms onto another mortgage, but, once moved onto a new mortgage, they would then move onto new terms and conditions, and so wouldn't be able to port on the same terms again. Lloyds paid Mr and Mrs R £100 compensation for its lack of support. However, Lloyds didn't agree that it should compensate Mr and Mrs R for interest they'd paid over the years.

Mr and Mrs R weren't happy with Lloyds' response and brought their complaint to our service. Lloyds told us that, on reflection and after listening to the call on 2 July 2022, the bank didn't think it had done anything wrong. However, it was not intending to go back on the £100 it had paid to Mr and Mrs R.

Lloyds said there were no records of earlier applications in 2011 or 2019. The bank reiterated its position that Mr and Mrs R could port their existing mortgage terms onto a new mortgage on another property.

An investigator looked at what had happened. He didn't think the complaint should be upheld. The investigator arranged for Lloyds to send Mr and Mrs R the phone call from 2 July 2022, when the application had been discussed. From this, the investigator had noted that, although Lloyds had discussed how much it could lend on a repayment basis, the bank had also said that Mr and Mrs R could keep their current interest-only terms, although they would need to think about a repayment vehicle.

Mr and Mrs R asked for an ombudsman to review 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.

I've reviewed the historic contact notes for the account. Although Mr and Mrs R say that Lloyds refused them a new mortgage in 2011, there is no record of this in the notes. I see that in 2011 Mr and Mrs R complained that they thought the mortgage had been mis-sold, and complained to our service about this in 2012, but the complaint wasn't upheld. But there is no evidence to suggest Mr and Mrs R had applied for, and been declined, a new mortgage in 2011, or that they even enquired about this.

There's also no record of any contact in 2019. I note Mr and Mrs R say this was an enquiry, over a video link that had a bad connection. Although Mr and Mrs R say that they were expecting Lloyds to contact them after this, it seems Mr and Mrs R didn't follow this up either.

In relation to the call in July 2022 which led to this current complaint, I've listened to the call recording and read the notes Lloyds made of the call, a copy of which has been sent to Mr and Mrs R. I understand Mr and Mrs R also have the call recording which Lloyds sent directly to them following technical difficulties in us forwarding it.

I won't set out all the details of what was discussed, because all parties are aware of this. But I'm satisfied that Lloyds discussed various options. The adviser confirmed that the system would generate capital repayment options in any event. For a repayment mortgage, the bank could use earned income up to the age of 70, and that if the term was to go beyond that on a repayment basis, then the bank would need to look at pension income. So although

there was discussion about a reduced term, this was only in relation to a capital repayment option.

However, Lloyds confirmed that, as this was an old Cheltenham & Gloucester mortgage, Mr and Mrs R would be entitled to take the terms of their existing mortgage onto a new mortgage. There was discussion about how the mortgage balance would be repaid at the end of the term, and Mr and Mrs R mentioned whether or not a part-repayment, part-interest-only mortgage might be considered, or whether they would sell at the end of the term.

The call ended with Mr and Mrs R confirming they would get back to Lloyds when they were ready to proceed. Instead, Mr and Mrs R made a complaint.

I'm satisfied, after listening to this call, that Lloyds did not decline Mr and Mrs R's request to transfer their mortgage terms onto a new property. The bank made it clear that the interest-only mortgage terms could be transferred onto a new mortgage. I'm satisfied that Lloyds did not say that this could only be done on a reduced term length; the discussion about reducing the term was when a repayment mortgage was being discussed at the start of the call – and even then Lloyds said that it could be extended with evidence of pension income.

The option to port the existing interest-only mortgage terms remains open to Mr and Mrs R, should they want to go ahead with it. Regulations that came into effect in 2014 allow lenders to dispense with affordability assessments where consumers with mortgages taken out before 2014 want to move their mortgage terms onto a new property and there is no material change to the mortgage. Because Mr and Mrs R want to reduce their borrowing and keep the same term length, they fall within these regulations. Indeed, I reiterate that Lloyds told Mr and Mrs R on 2 July 2022 that they could transfer the existing mortgage terms onto a new mortgage on another property.

I am therefore satisfied that Lloyds has done nothing wrong. Because there is no evidence of any earlier applications declined by Lloyds in 2011 or 2019, there is no basis on which I can reasonably conclude that Lloyds refused to transfer the mortgage terms onto another mortgage. It follows, therefore, that the claim for additional interest paid since 2011 cannot be upheld.

Lloyds initially paid £100 compensation because it had (mistakenly) thought Mr and Mrs R weren't given enough support with their request to change the mortgage terms. The bank later realised it *had* provided sufficient support. I'm satisfied that, during the call on 2 July 2022 Mr and Mrs R were provided with all the information they needed to decide whether or not to proceed with an application to transfer their mortgage. I'm therefore not persuaded that Lloyds is required to pay them any additional compensation.

It is still open to Mr and Mrs R to apply to transfer their interest-only mortgage terms onto a new mortgage and downsize, should they wish to do so. Once they have found a buyer for their property and identified a property they want to buy, they can make an application to Lloyds.

If Mr and Mrs R want to vary the terms of the existing mortgage (i.e. by taking out a repayment mortgage, or part-repayment, part-interest-only), then that will be subject to an affordability assessment, as it is a material change to the mortgage. But it is worth pointing out that the existing interest-only mortgage terms allow unlimited overpayments, either by way of lump sums or regular monthly overpayments, which will reduce the mortgage

balance, and the interest payable. If Mr and Mrs R want to discuss their mortgage requirements, they should speak to Lloyds, or to an independent financial adviser.

My final decision

My final decision is that I don't uphold this complaint.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any correspondence about the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs R to accept or reject my decision before 19 September 2023.

Jan O'Leary
Ombudsman