

The complaint

Mr and Mrs G's complaint arises from their mortgage account with Bank of Scotland Plc trading as Halifax. Mr G, who has dealt with the complaint throughout says:

- Halifax unfairly and unreasonably declined to switch the mortgage from capital repayment to interest-only, even though this would have been the most sensible course of action given Mr and Mrs G's circumstances;
- Halifax didn't backdate their new interest rate product to 1 February 2023. As a result, in the mortgage reverted to Standard Variable Rate (SVR) for the month of February 2023.

What happened

I do not need to set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs G being identified. So for these reasons, I will instead concentrate on giving the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

Briefly, Mr and Mrs G have a capital repayment mortgage with Halifax taken out in 2018. In late 2022 the mortgage was reaching the end of its current interest rate product, which was due to expire in January 2023. From 1 November 2022 onwards, Mr and Mrs G could apply for a new interest rate product to take effect from 1 January 2023.

Through their broker, Mr and Mrs G applied for a new product, and to switch the mortgage from capital repayment to interest-only. However, even though this would have meant lower repayments, Halifax declined the switch on the basis of affordability.

Mr G thought this was unfair and complained. However, Halifax declined to change its decision. Mr and Mrs G brought their complaint to our service where an investigator looked at what had happened. She didn't think Halifax had acted unfairly in declining the switch to interest-only.

The investigator explained that, although the repayments are lower on an interest-only mortgage, there were other things Halifax was entitled to take into consideration. The bank noted that Mr G was no longer living in the property, and that the request to switch to interest-only was partly because he now had the additional expense of renting a property in which to live. Mr G had also lost rental income, and his earned income was lower than when the mortgage was taken out. Mrs G had no earned income.

The investigator explained that this resulted in an increased risk to Halifax, which was not outweighed by the reduced benefit to Mr and Mrs G of making lower monthly repayments.

In relation to the delay in implementing the rate switch, Mr and Mrs G had previously chosen a rate of 4.42% in January 2023, but then cancelled this and chose a new rate of 4.29%, to take effect from 1 February 2023.

Mr G then noticed new interest rates launched on 1 February 2023 which gave lower rates, and so he cancelled the 4.29% and selected instead a rate of 4.09%, which took effect from 1 March 2023. Halifax put this in place, but it meant that for February 2023 the mortgage reverted to SVR. Mr G complained, because he wanted the 4.09% rate to apply immediately after his previous product expired on 31 January 2023.

The investigator explained that new rates were implemented in the month following the selection of the rate. The investigator noted that the 4.09% rate Mr and Mrs G had chosen took effect from 1 March 2023, as a result of which the mortgage was on SVR for a month in February 2023. However, Halifax had agreed to reinstate the 4.29% fixed rate from February 2023, if Mr and Mrs G would prefer this, which the investigator thought was fair.

Mr G didn't agree with the investigator's findings and asked for an ombudsman to review the complaint. Neither Mr G nor Halifax has provided any new evidence or arguments.

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.

Interest-only switch: There are regulations in place that have flowed from the Mortgage Market Review (MMR) carried out by the Financial Conduct Authority (FCA) which took place after the financial crash in 2008. This has led to a series of major changes, effective since 2014, in the way residential mortgages are regulated. MMR regulations have brought about requirements for stricter lending assessments, aimed at protecting consumers and encouraging mortgage lenders to act more responsibly.

Where a customer who took out a mortgage after 2014 wants to make a material change to the mortgage, the lender is entitled to carry out an affordability assessment. That is what Halifax did in this case. The affordability assessment revealed that Mr and Mrs G were maintaining two households, and so the additional expenses involved in this, coupled with reduction in income, meant that a switch to interest-only didn't meet the bank's criteria.

Halifax is entitled to set its own lending criteria. Decisions that Halifax makes in respect of what those criteria are, its attitude to risk involved in this particular lending assessment, and whether it should lend and if so, on what terms are clearly discretionary matters for Halifax's own commercial judgement that I would not interfere with.

Halifax has provided information about its lending criteria and about what was taken into account in its consideration of the application. I'm entitled to treat this as confidential, because it is commercially sensitive. But after considering this information, I'm satisfied that Halifax reached its decision fairly, after taking into account all relevant factors, including (but not limited to) affordability, exposure to risk, and Mr and Mrs G's specific circumstances.

Given this, I'm satisfied that Halifax gave fair consideration to this application and so legitimately exercised its commercial judgement when declining to switch the mortgage to interest-only. This means that there is no basis upon which I can find that Halifax has treated Mr and Mrs G unfairly or unreasonably.

Delay in product switch: Mr G's position is that the 4.09% rate he chose in February 2023 (which replaced the 4.29% he'd previously chosen in January 2023) should be backdated to 1 February 2023 and that he was led to believe this would happen. Instead the mortgage

went onto SVR for the month of February 2023, until the new 4.09% rate came into effect on 1 March 2023.

I'm afraid I have to disagree with Mr G that the 4.09% should apply from 1 February 2023. New interest rates apply for the month after they are chosen – so in order for a 4.09% rate to apply to the mortgage from 1 February 2023, it would have needed to have been available in January 2023. However, that wasn't the case; the 4.09% rate didn't exist in January 2023, and only became available after 1 February 2023, to be applied to mortgage accounts the following month.

Having listened to the call recordings provided by Halifax, I'm not persuaded Mr G was told that the 4.09% would be backdated to February 2023. Because Mr G cancelled the rate he'd selected in January 2023, there was therefore no new interest rate product in place for February 2023, and so the account was correctly operated on SVR for that month.

Halifax has offered to switch the mortgage back to the 4.29% rate and to backdate this to 1 February 2023, if Mr and Mrs G would like this. However, this would mean that the mortgage would remain on that interest rate product for the duration of that product term.

Overall, therefore, Mr and Mrs G might be better off sticking with their chosen 4.09% product, with the payment for February 2023 remaining on SVR, as the payments on a 4.29% rate would obviously be higher than on a 4.09% rate. I leave it to Mr and Mrs G to decide what they want to do about this and to let Halifax know if they want to switch their mortgage back to the 4.29% product, backdated to February 2023.

I know this isn't the outcome Mr and Mrs G wanted. I fully appreciate that the change in their family circumstances has resulted in additional expense for them. However, I'm unable to find Halifax has treated Mr and Mrs G unfairly or unreasonably.

Since the complaint was raised with us the Government has announced the introduction of the Mortgage Charter. The Charter includes various provisions which will help consumers worried about how they're going to pay their mortgage both at present and in the future. Further information about the Charter, and about the help Halifax might be able to offer, can be found here: <https://www.gov.uk/government/publications/mortgage-charter/mortgage-charter>.

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 Mrs G and Mr G to accept or reject my decision before 6 November 2023.

Jan O'Leary
Ombudsman