

The complaint

Mr and Mrs M complain that National Westminster Bank Plc wouldn't allow them to switch to interest only when the interest rate increased on their mortgage. They would like NatWest to allow them to make interest only payments and to reimburse them with any fees they have paid along with compensation for the stress they have been caused.

What happened

Mr and Mrs M approached NatWest in February 2023 and asked them to change their mortgage to interest only as they were struggling to meet the payments.

NatWest carried out an income and expenditure (I&E) assessment and the application was rejected due to high overspend. NatWest also said that Mr and Mrs M were in breach of the mortgage contract as they found out that the property was being let without their permission. NatWest then agreed to the property being let but said that they were still unable to allow the switch to interest only as it was unaffordable.

NatWest have since allowed Mr and Mrs M to change their mortgage to interest only for six months following on from the introduction of the Mortgage Charter.

Even though NatWest agreed to this, Mr and Mrs M feel it was unfair of NatWest to decline their request in February 2023 which led to further financial difficulty, so they brought their complaint to the Financial Ombudsman Service.

The complaint was looked at by one of our investigators who didn't uphold the complaint. He said Mr and Mrs M's original application for interest only in February 2023 was declined due to affordability concerns and also because Mr and Mrs M had let their property out without consent at the time, so it didn't meet NatWest's criteria. The investigator said that he had reviewed the I&E assessments and Mr and Mrs M would have needed to evidence that they could afford the interest only payments, but not the full capital repayment payments – which wasn't the case. He didn't think NatWest had acted unfairly.

Mr and Mrs M didn't agree with the investigator. In summary, they made the following comments:

- NatWest did not attempt to gain a full understanding of their income and expenditure.
- BTL mortgages are not fully taxable so rental income of £1,000 versus a mortgage of £700 does not equate to £300 net income as the whole £1,000 is taxable, with a small element of relief on the mortgage. There was no discussion around this.
- They were asking for interest only payments for the remainder of the mortgage. The payments would only increase if they moved onto a variable rate when the fixed rate expired in 2028 but at this point, they would remortgage to another lender. The payments on an interest only mortgage would only increase following a payment holiday as the loan capital would increase – the increase in payments and what NatWest were concerned about does not apply here.
- They are low risk to NatWest as they have a low loan to value (LTV).
- They have eight other properties all operating on interest only and they have no issues covering those mortgage payments. They do have an issue covering this

mortgage payment because it is on capital repayment which is why they wanted to switch it.

- They are subsidising their income from the other mortgages. This property is the cash flow issue and pushing them towards financial hardship. Mr M said he was given six months on interest only and used this period to repay some of the interest on loans they had accumulated and they are now back on capital repayment with no room to repay these debts.
- NatWest didn't ask for evidence such as bank statements or for an explanation on how they intended on repaying the mortgage.
- They were not given the support as outlined by the Financial Conduct Authority by NatWest.

Mr and Mrs M said that had they of had the support when they asked for it rather than when the Mortgage Charter was introduced, they would not have racked up the debt they did and would be in a stronger position now. They said they would have been happy with the temporary six months at the time as it would have been better than nothing, but by the time NatWest agreed to do that, it was too late.

As Mr and Mrs M disagreed with the investigator, they asked for the complaint to be reviewed by an ombudsman, so it's been passed to me to decide.

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 considered everything carefully, I have come to the same outcome as the investigator. I will explain why.

I understand that Mr and Mrs M have a number of BTL properties, and they are all on interest only, except for this one which is on capital repayment. They have told us that the rent they receive from the property hasn't been enough to pay the mortgage – so they have been trying to close the gap. They wanted to switch to interest only as this would have helped them at the time.

The crux of the issue here, is that Mr and Mrs M wanted to switch their repayment mortgage to an interest only mortgage – and they said they wanted this for the remainder of the term.

This mortgage was taken out on a residential basis and NatWest then found out that Mr and Mrs M were letting the property out without their consent. So Mr and Mrs M would have been in breach of the terms and conditions of the mortgage. NatWest agreed to Mr and Mrs M letting their property out in March 2023 but as this was a consent to let, they assessed their I&E and the switch to interest only against their residential criteria – because consent to let is different to a BTL mortgage – as the intention is for the borrower to move back into the property at some point in the future.

NatWest still had to ensure that their criteria was met when agreeing to change a mortgage to interest only, even though Mr and Mrs M said they would remortgage to another lender possibly in the future. It's not something that any lender will agree to do long term just because a borrower wants that to happen.

I've looked at NatWest's policy around interest only payments from when Mr and Mrs M applied in February 2023. It states that to obtain a long term or indefinite interest only mortgage, it's required that there is a joint income of £100,000 or a sole income of £75,000.

Their policy for short term interest only switches require arrears to be under three months and an income and expenditure assessment would need to be carried out. The affordability

would need to show that the payments would be met following on from the interest only period.

Mr and Mrs M say that NatWest didn't gain a proper understanding of their income and expenditure and asked if the criteria for the relevant incomes required (£100,000 and £75,000) was before or after tax.

The application to switch to interest only was also declined at this point not just because of affordability, but because Mr and Mrs M had let out the property without NatWest's consent. NatWest have explained that this was a breach of the terms and conditions of the mortgage and the option to switch to interest only would not have been available had they of known that at the time.

Mr and Mrs M were given six months at interest only when the government introduced new support for borrowers – the Mortgage Charter – on 23 June 2023. This allowed lenders to be more lenient with their criteria in order to support borrowers who needed it. The Mortgage Charter allowed borrowers to switch their mortgage to interest only for a maximum of six months. NatWest have told us that they did allow Mr and Mrs M to switch to interest only for six months which started in August 2023.

I appreciate that Mr and Mrs M said they would have liked the interest only to have started earlier than it did – and from when they asked for it in February 2023, so I've listened to the call recordings to see what was discussed and if NatWest considered their request fairly.

There were two calls on 28 February 2023 and another one in March 2023. NatWest wanted Mr and Mrs M to complete an I&E assessment and I've listened to how the assessment was completed when it was discussed on the telephone.

Mr M called to explain he had sent in the I&E assessment which he wanted to discuss. The agent on the phone said the assessment indicated a surplus of £3,864 and asked Mr M about his income again as it showed approximately £10,000 per month. He explained that he had included some credit cards on there which were related to his business and are cleared. Mr M then explained the shortfall between his rental payments and the mortgage payments which he wanted to close the gap on those.

The agent explained that as it stood at the moment, the I&E showed that he could afford his payments based on the amount that he has left each month. She explained that Mr M should do the I&E assessment again with just his income (and nothing related to the business) and what he takes home and include his and Mrs M's expenditure including how much he pays towards any credit cards so it's a clear indication of his situation. The agent then told Mr M to call back once he had done that.

Mr M then called back on the same day and a further discussion happened surrounding his income and expenditure. It was worked out that Mr M's income was £2,827 per month and after expenses, the assessment showed minus £3,229. NatWest said it wasn't possible to switch to interest only as it was showing as unaffordable, but they also wouldn't be able to offer any forbearance as they couldn't see how Mr and Mrs M were going to be able to afford the mortgage after the interest only had ended.

The agent did ask Mr M if his circumstances were likely to change and he said he had a rent review so his rent may increase but when the agent discussed it with another department, they were not satisfied that Mr and Mrs M's situation would change by as much as it would need to for them to be able to make up the capital repayments after the period ended.

I know that Mr and Mrs M said that they don't feel the capital repayment element should be taken into account because they wanted to remain on interest only for the term of the mortgage. But NatWest's long-term interest only policy meant they needed to earn £100,000 between them or £75,000 solely. Mr and Mrs M have said they didn't assess their income correctly and NatWest never told them about this policy.

But I don't think they needed to. Having listened to the telephone calls, Mr M had said his income was under this amount and he said that Mrs M didn't work – so they didn't meet the long-term interest only criteria. So NatWest considered this request on a short-term basis only, so I don't think they were unreasonable in wanting to know that the repayments could be met after the interest only period ended because their balance would have increased overall because of this.

Mr and Mrs M have argued the fact that BTL mortgages are not fully taxable and that there was no discussion around this. I'm not persuaded that NatWest assessed the request to switch to interest only incorrectly. And this was assessed as a residential mortgage with permission to let it out. NatWest were aware that Mr and Mrs M had other BTL properties, and they had a discussion many times with Mr M surrounding the I&E.

This was after they agreed to Mr and Mrs M letting this property out as they said originally that this had been done without their consent.

Mr and Mrs M have said that NatWest didn't offer them support as outlined in the Financial Conduct Authority's guidance, but I don't agree with that. NatWest assessed the request to switch to interest only fairly and did allow Mr and Mrs M to switch to interest only for six months once the Mortgage Charter was introduced.

It's important to reiterate again that Mr and Mrs M's mortgage request was assessed as a residential mortgage with permission to let, so NatWest assessed this request fairly.

Mr and Mrs M have already explained that they may want to remortgage to another lender and this will be their choice if they wish to do so. It's possible that they may not be able to make certain changes to their mortgage in the future or obtain the same interest rates that were available to them before, as their property is now being let out.

I can't agree that NatWest haven't assessed the request to switch to interest only fairly and I appreciate that Mr and Mrs M will be disappointed with my decision, but I am satisfied that NatWest has acted fairly and reasonably in the circumstances of this complaint.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 2 May 2024.

Maria Drury
Ombudsman