

The complaint

Mr and Mrs K complain that Santander UK Plc wouldn't agree to a new interest rate, or to extend the term, of their interest only mortgage.

What happened

Mr and Mrs K have an interest only mortgage with Santander. They took a fixed rate of 2.99% in 2019, which took them to May 2021. After May 2021, their mortgage was due to revert to Santander's follow on rate (FOR), which tracks the Bank of England base rate plus 3.25%.

As the end of the term approached, Mr and Mrs K discussed their situation with Santander and it agreed an extension of a year, until August 2022, and agreed a further fixed rate of 2.99% during this time too. That meant that Mr and Mrs K's mortgage would revert to the FOR in August 2022 rather than May 2021.

During 2022 the Bank of England increased base rate – and it has increased every month since August 2022, meaning the FOR, and the amount they have to pay each month, is increasing too. Mr and Mrs K say this is causing them financial hardship and uncertainty.

Mr and Mrs K were able to pay £62,000 in May 2022 and a further £26,000 in September 2022 to reduce the capital balance, and a further £15,000 in February 2023 and £25,000 in April 2023. In May 2023 they repaid the balance in full.

Mr and Mrs K had put their residential property on the market but without success. They found a buyer, albeit below asking price, but the borrower pulled out because of concerns about rising interest rates. They also put an investment property on the market.

Mr and Mrs K complain that Santander hasn't treated them sympathetically because it wouldn't agree to allow their fixed interest rate to continue or offer them a new lower rate; because it requires them to call in every month to discuss the progress of the sale, which they regard as coercive debt collection. They say Santander told them it can't offer them any other options as Mr K is over 75 years of age, which is age discrimination. They say they have a low loan to value and a good history, and wanted Santander to have treated them fairly until they were able to repay. They say they have fixed pension incomes so there is no risk to Santander, and feel they've been forced to repay with no support – instead Santander has threatened to send people to their home or take them to court.

Santander said it couldn't offer a further extension and the mortgage needed to be repaid. And it couldn't offer Mr and Mrs K a new interest rate either, so they would remain on the FOR until it was repaid. It said it had offered a one year extension because Mr and Mrs K couldn't put their property on the market until June 2022 because of major roadworks in their area. But now there was no barrier to the sale of the property to repay the mortgage. Santander said it would keep things under review and allow Mr and Mrs K time to repay, but couldn't agree a further formal extension.

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'm sorry to hear of the difficulties Mr and Mrs K have faced and I'm pleased to hear they've now been able to repay their mortgage to resolve things.

I appreciate this would have been a stressful situation for them. They've said that they should never have been in this situation in the first place, but I can't look at how the mortgage was originally taken out as part of this complaint due to the passage of time. But I can see that it was made clear that it was an interest only mortgage, and that Mr and Mrs K would need to have a way of repaying the capital balance at the end of the term.

It's reasonable for a lender to expect a mortgage to be repaid at the end of the term – as both parties agreed would happen. But where that's not possible I would expect a lender to look at a borrower's situation fairly, show reasonable forbearance, and work with the borrower to find a way forward to work towards a point where it can be repaid.

Having considered everything that happened in this case, I do think Santander acted fairly overall. When Mr and Mrs K first reached the end of their term, in 2021, it discussed things with them and noted that they were unable to sell their property at that time because of building work in the area. It therefore agreed a one year extension, including a new fixed rate, to get Mr and Mrs K past the building work and to the point where they could sell.

Mr and Mrs K did put their property on the market, and also put a separate investment property on the market. When the one year extension ended, Santander didn't agree to a further formal term extension. As by this point Mr and Mrs K were actively working towards repayment – by selling one of their properties – I think this was reasonable. I don't think it's unfair that Santander wanted to be kept up to date with their progress in working towards being able to repay their mortgage. And while it told them what the long-term consequences of not repaying might be (as the regulator requires it to do), it didn't take legal or other action before the mortgage was repaid.

It's unfortunate that just as the extended fixed rate ended in August 2022, and Mr and Mrs K went onto the variable FOR, base rate started to go up month by month, making their mortgage more expensive every month. However, I don't think this was arbitrary or unfair, as the FOR is tied to base rate – it's a tracker rate – and so when the Bank of England increased base rate the FOR goes up too. And I don't think Santander ought fairly to have offered Mr and Mrs K a new fixed rate at this point. Their mortgage term had come to an end, and they could have repaid the balance in full at any time. A new fixed rate would require an extension to the mortgage term and might also come with an early repayment charge.

I take Mr and Mrs K's point that they have a good payment history, generous fixed pensions and a low loan to value. I agree that from the point of view of maintaining monthly interest payments they're likely to present a low risk to Santander.

But it's not just about paying the interest; Santander is entitled to expect the capital balance to be repaid too. Mr and Mrs K did have several options available – selling this property, selling one of their other properties, or re-financing (for example with a lifetime mortgage) among them – and in those circumstances it's fair and reasonable to expect them to repay as they agreed they would when they took the mortgage out.

Mr and Mrs K have referred to the Mortgage Credit Directive, which came into force in 2016

– but this doesn't apply to their mortgage which was taken out before 2016.

Mr and Mrs K also complain that Santander discriminated against them on the grounds of their age, in particular because Mr K is over the age of 75. I've taken the relevant law on this – the Equality Act 2010 and associated regulations – into account. The law says that financial services providers can take age into account but only in certain circumstances. Although I take relevant law into account, specific findings of a breach of the Equality Act are more a matter for the courts than they are for me. I think the crucial question is whether Santander acted fairly when it required Mr and Mrs K to repay their mortgage rather than agree to a further term extension. In all the circumstances, for the reasons I've set out above, I think it did.

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 K and Mrs K to accept or reject my decision before 24 October 2023.

Simon Pugh
Ombudsman