

The complaint

Mr and Mrs R's complaint arises from their mortgage with National Westminster Bank Plc (NatWest). Mr and Mrs R are unhappy that in August 2022 NatWest refused to change the mortgage from capital repayment to interest-only.

To settle the complaint they would like NatWest to transfer the mortgage onto an interest-only basis immediately.

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 R 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 R have a capital repayment mortgage with NatWest which was initially comprised of a main mortgage of £178,000 taken out in August 2014 and sub-accounts for further advances taken out in 2020 totalling £128,000. Mr and Mrs R paid off the main mortgage in July 2022 and asked NatWest to transfer the sub-accounts onto an interest-only basis. Because Mr and Mrs R didn't meet affordability criteria for this, NatWest declined the request.

Mr and Mrs R didn't think this was fair and complained. NatWest didn't uphold the complaint so it was brought to our service where an investigator looked at what had happened. The investigator was satisfied NatWest hadn't done anything wrong and didn't uphold the complaint.

Mr and Mrs R asked for an ombudsman to review the complaint. Mr R, who has dealt with the complaint throughout, says that NatWest's lending criteria are "*arbitrary*", and although he didn't meet those, he did qualify for a new fixed interest rate product. Mr R also sent an article from a newspaper dated 8 December 2022 which says that borrowers in financial difficulty can make a temporary switch to interest-only without a repayment vehicle.

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.

Under the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) a request to change the mortgage from capital repayment to interest-only is considered to be a change that is material to affordability. The original mortgage which Mr and Mrs R paid off in

July 2022 was taken out after 26 April 2014, and so the transitional arrangements that allow the bank to dispense with an affordability assessment in some cases do not apply here.

NatWest has provided us with a copy of its lending criteria. I note the bank's request to keep this confidential. However it can easily be found online and so it is not commercially sensitive or confidential information if the bank makes it available to the public.

NatWest is entitled to set its own lending criteria. Decisions that NatWest makes in respect of what those criteria are, its attitude to risk involved in this particular request, and whether it should change the mortgage to interest-only are clearly discretionary matters for NatWest's own commercial judgement that I would not interfere with.

NatWest's lending criteria requires joint borrowers to have income of not less than £100,000. This is reasonable, because although the customer is making lower repayments than they would on a capital repayment mortgage, the risk to the lender is greater as none of the capital is being repaid. It's therefore in line with the bank's responsible lending obligations to ensure that customers are likely to have the income to support a collateral repayment vehicle to pay off the capital balance at the end of the loan term.

Mr and Mrs R did not meet NatWest's lending criteria as they were below the required income threshold the bank requires. I note what Mr and Mrs R have said about what they perceive to be the low risk to the bank of transferring the mortgage onto interest-only. They've explained that they have investments they can liquidate so they can pay off the mortgage at the end of the term (there are, in fact two end dates for the two sub-accounts). Alternatively, because of the relatively low loan-to-value ratio (LTV), Mr and Mrs R have said they could sell the property and downsize with no problem.

NatWest didn't explore any potential repayment vehicle for the mortgage, because the application failed at the first hurdle, which was the income requirement. I acknowledge Mr R's point that the switch would have reduced the monthly repayments, so doesn't understand why insufficient income means his payments will remain higher. But the application Mr and Mrs R made wasn't for a temporary switch to interest-only for forbearance reasons. They requested a permanent switch, and permanent switches have to meet certain criteria. If Mr and Mrs R had requested a temporary switch to interest-only for forbearance reasons because they were struggling to make the full monthly repayments, then that would have been looked at as part of a wider package of measure that are available to customers in financial difficulties. That is a different process, and not what Mr and Mrs R applied for.

At the time of the request, the monthly mortgage repayments were approximately £2,000 per month. Mr R has told us that he is having to deplete his investments by this amount each month in order to pay the mortgage. Yet at the time of the application in August 2022 Mr and Mrs R had a joint income, according to the information provided to NatWest, of almost £60,000. So unless they also have extensive unsecured credit commitments, it is difficult to see why they are having to draw £24,000 a year from their savings, as Mr R claims, simply in order to pay the mortgage.

The article Mr R provided refers to discussions that were taking place in December 2022 between Government, the Financial Conduct Authority and mortgage lenders, and which resulted in the Mortgage Charter. This is a voluntary commitment by most major mortgage lenders to help borrowers who may be experiencing financial difficulty. It came into effect in June 2023, and allows borrowers who are struggling to pay their mortgage to switch temporarily to interest-only for six months. After that, their mortgage repayments will revert to capital repayment, and the payments will increase to take into account the unpaid capital over the previous six months.

However, unless I have misunderstood, that is not what Mr and Mrs R want. They want their mortgage to be switched permanently to interest-only, rather than for six months. Because they didn't meet the criteria for a permanent switch, I'm unable to find NatWest acted unfairly.

If Mr and Mrs R's income increases to enable them to meet NatWest's minimum income criteria, they can always apply again to switch their mortgage to interest only. If they meet the income criteria, the bank will then assess whether there is a suitable repayment strategy for the mortgage.

If Mr and Mrs R are experiencing financial difficulty and want to switch the mortgage onto an interest-only basis temporarily, they should speak to NatWest about this. As I said above, the bank is signed up to the Mortgage Charter and is committed to helping customers who are in financial hardship.

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 4 January 2024.

Jan O'Leary
Ombudsman