

The complaint

Mrs H complains that Saffron Building Society has not acted fairly in declining her request to switch her mortgage to a new product with a fixed interest rate period.

What happened

Mrs H has a repayment mortgage with Saffron. In 2019, Mrs H switched to a mortgage product which included an initial fixed interest rate period until the end of April 2022 after which her interest rate would move onto Saffron's standard variable rate (SVR).

In April 2022, Mrs H requested a further product switch – she wanted a new fixed interest rate rather than to move onto Saffron's SVR.

Saffron declined Mrs H's request on the basis that her mortgage had been in arrears in the past twelve months. It said it would review this again after Mrs H had met her contractual payments for a period of six months.

Mrs H complained to Saffron that it wasn't treating her fairly. She explained she had lost her job in January 2020 and finding new employment during the Covid-19 pandemic had been difficult. In March 2020 Saffron implemented a payment deferral which Mrs H says she thought had continued. Mrs H says she got a new job in February 2021 and made additional payments towards the arrears, clearing the arrears on her mortgage in May 2022.

Mrs H says it's unfair to leave her with a product that has a higher monthly cost than available fixed interest rate products, especially if Saffron has concerns about the affordability of her mortgage. And that Saffron had previously agreed to a new product for her when she had recent arrears on her mortgage so she knows it can depart from its policies. Mrs H has explained this situation has caused her a great deal of stress and mental strain.

Saffron didn't uphold Mrs H's complaint, it said it had previously agreed to provide Mrs H with a fixed interest rate product despite arrears on her account due to her particular circumstances at the time, but that it wasn't appropriate to do this again in May 2022 due to the repayment history on the account not meeting its lending criteria.

When Mrs H complained to our service, the investigator upheld the complaint. They said Mrs H had been through a difficult time and taken steps to clear the arrears on her mortgage account. So, they thought Saffron should have agreed to a new product for her in May 2022. They recommended Saffron backdate Mrs H's mortgage as though she had switched to a fixed interest rate product in May 2022.

Saffron didn't agree, it said Mrs H's mortgage repayment history showed she was struggling to afford her contractual repayments when she was on a previous fixed rate. It said Mrs H's monthly commitments had increased (including repayments towards a second charge loan) and Mrs H hadn't provided evidence of her income and expenditure when requested. So, it said agreeing to a new fixed rate product that came with early repayment charges (ERCs) may have been detrimental to Mrs H in the event she continued to struggle to meet her

contractual repayments, particularly if she'd needed to sell the property.

Saffron added that Mrs H had indicated in October 2022 that she intended to downsize to reduce her level of debt and that she had also asked to switch her mortgage to an interest only basis in February 2023 in the short term. But that Saffron hadn't been able to properly assess Mrs H's financial position without her providing a copy of her bank statements.

So, the matter was passed to me for a decision by an ombudsman. I asked for further information to clarify Saffron's product switching policy and whether it had assessed Mrs H's financial position at the time of her request. Saffron provided an earlier version of its lending criteria which it says is still in use. It also confirmed it didn't undertake an affordability assessment at the time as it had declined Mrs H's request based on her not meeting the lending criteria for a product switch.

I issued my provisional decision on 20 June 2023, in which I explained why I didn't intend to uphold the complaint. In summary, I didn't think it was unreasonable for Saffron to have declined Mrs H's request to switch to a different product with a fixed interest rate period given that this may not have been in her best interests at the time.

Mrs H didn't agree, she said that she didn't think it was fair to ask her to pay an additional £600 or more per month. Mrs H also asked that Saffron remove the adverse information on her credit file and let her switch her mortgage payments to an interest only basis for a while.

Saffron didn't provide any further comments by the deadline set.

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 done so, including Mrs H's additional points, I'm not upholding this complaint. I'll explain why.

I note that Mrs H has raised two complaints with Saffron which it responded to in May and August 2022. For clarity I'm considering here the complaint that Saffron responded to in May 2022 – i.e. that Mrs H is unhappy Saffron declined her request to switch her mortgage to a lower fixed interest rate product.

When Mrs H informed Saffron that she was no longer working in March 2020, Saffron agreed to a three-month payment deferral which was then extended by a further three months until August 2020. However, no payments were received until February 2021 when Mrs H began a new job and in this time arrears accrued. I note Mrs H has said she thought the payment deferral had continued and so I've considered whether the arrears on her mortgage accrued correctly. Having done so, I haven't seen any evidence that Saffron agreed to extend the payment deferral beyond August 2020 or that it ought to have.

Payment deferrals are a useful tool to support customers, but they are not long-term solutions. The Financial Conduct Authority's guidance to firms on mortgages and COVID-19 sets out that the expectation for businesses was to provide a six-month payment deferral for customers where appropriate. So, I think Saffron acted fairly and in line with good practice at the time by agreeing this with Mrs H.

For completeness I can also see from Saffron's contact notes that it attempted to establish what repayments Mrs H could afford and put in place repayment plans. It also signposted Mrs H to external charities to support her in prioritising her debts and planning her next

steps. So, I don't have any concerns about how Saffron handled Mrs H's mortgage up until her request in April 2022 that might affect this complaint.

Turning to Mrs H's request for a new product in April 2022, Saffron has provided a previous version of its lending policy which it says is still in use. This says its customers must not have been in arrears for at least six months at the time of a product switch. This doesn't appear to be included in Saffron's lending policy from April/May 2022, which Saffron says was an error.

I note though, that it isn't unusual for lenders to require a period of time over which a customer is clear of arrears – this is to demonstrate that the customer can meet their contractual repayments before agreeing to a product switch. This is reasonable because otherwise customers could be tied into a mortgage they're not going to be able to maintain and it may well cost them more in the long run if, for example, an ERC needs to be paid.

From February 2021, Mrs H clearly made an effort to meet her contractual payments and make additional payments to reduce her arrears whilst balancing this priority against her other financial commitments. However, Mrs H didn't make a payment towards her mortgage in December 2021 or January 2022, so her mortgage was in arrears until these were cleared in May 2022.

Mrs H's repayment history shows she was struggling to meet her contractual repayments as they were, and that this had been the case on and off for the previous two years. And she had missed two payments only a few months before her request for a product switch. So, I don't think it was unreasonable for Saffron to have had concerns about her ability to meet her contractual repayments.

In that context, I don't think it was unreasonable for Saffron to want to see a period of time whereby Mrs H showed she could meet her contractual repayments to be satisfied that she would be able to meet the terms of the new product she wanted to switch to. This is important because if Saffron had agreed to a new product with a fixed interest rate period, this would also have restricted Mrs H's options. There would have been applicable ERCs had Mrs H needed to refinance or sell the property during the initial fixed interest rate period. So, while I appreciate Mrs H's contractual repayments were higher on Saffron's SVR compared to its available fixed rate products at the time, for the reasons above I'm not persuaded Saffron has acted unfairly in concluding a product switch wouldn't have been in Mrs H's best interests as a whole.

Saffron says that Mrs H contacted it in October 2022 explaining that she intended to downsize to reduce her debt, and again in February 2022 to enquire about changing her mortgage to an interest only basis. I note that if either change to her mortgage had gone ahead it would likely have made an ERC applicable had Mrs H switched to a fixed interest rate product in May 2022.

I appreciate Mrs H has provided the context behind her financial position, including her reduced income. I also understand she increased her borrowing with another lender to help clear the arrears and pay for a home extension. When a customer is struggling financially, a mortgage provider should consider whether a lower interest rate would be an appropriate concession in the circumstances. But the factors above actually increase the likelihood that Mrs H may struggle with her contractual repayments, as she had higher outgoings and a lower income than previously. Saffron ought to have considered what was in the best interests of Mrs H, and given its concerns about locking Mrs H into a product with ERCs, I don't think it's acted unfairly in declining her request in the circumstances.

While Mrs H has pointed out that Saffron has made an exception before, this doesn't mean it

will always be appropriate to do so. So, for the reasons explained, I don't think Saffron needed to do anything further at the time or that it was unfair to decline her request for a product switch.

Mrs H has asked that Saffron amend her credit file as her complaint has been ongoing for some time. Unfortunately, this isn't something I would expect it to do simply because she has raised a complaint, Mrs H has been aware of the contractual repayments she's obligated to make during this time. However, if Mrs H thinks her credit file isn't an accurate reflection of her mortgage account then she would need to raise this with Saffron directly in the first instance. Similarly, if Mrs H wants to temporarily switch her mortgage payments to an interest only basis then she needs to request this directly with Saffron. If Mrs H is unhappy with how Saffron handles either request she can raise a separate complaint about that.

I understand Mrs H will be disappointed by my findings, but for the reasons explained I think Saffron has treated her fairly. Saffron does, however, have an ongoing obligation to continue to treat Mrs H fairly if she's still struggling financially.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 31 August 2023.

Stephanie Mitchell
Ombudsman