



The complaint

Mr M and Mr N complain that National Westminster Bank plc wrongly advised them to repay debts before applying for a mortgage. They ask that NatWest pays compensation and removes its credit search from their credit files.

What happened

Mr M and Mr N applied for a mortgage with NatWest. They say the adviser told them it would be better to use about £6,500 of their intended deposit to repay existing debts. NatWest then declined their application. Mr M and Mr N say they had to apply elsewhere with a smaller deposit. They had to borrow more, meaning the mortgage will cost them more overall.

Our adjudicator recommended that the complaint be upheld in part, saying:

- it wasn't fair to ask NatWest to remove the credit search from Mr N and Mr M's credit record, as this was carried out. Nor did she think NatWest should refund the money they used to repay their debts, as this was money they owed.
- she couldn't be sure Mr N and Mr M would have been offered a mortgage by another provider if the debts were outstanding. So she didn't recommend NatWest pay compensation for any additional interest.
- while it wasn't clear that NatWest advised Mr N and Mr M to repay debts, it paused their application to allow them to do this. If NatWest had made the credit check earlier, their application would have been declined before the debts were paid.

The adjudicator recommended NatWest pay compensation of £450, which it agreed to do.

Mr N and Mr M didn't agree. Mr N said the loan they repaid had a low interest rate compared to the interest they are paying on the mortgage. They said £450 doesn't cover their financial loss due to the additional interest over the term of the mortgage.

I didn't agree with all of the adjudicator's recommendations, so I sent a provisional decision to the parties to explain what I thought about this complaint. In summary, I didn't think it was likely that NatWest had advised Mr M and Mr N to repay debts. I didn't think NatWest should have carried out a credit check when the application had failed affordability tests. And while I thought NatWest could have done more to ensure Mr M and Mr N understood the possible consequences of repaying the debt, I didn't think this would have changed the outcome.

Mr N and Mr M didn't agree. They dispute that their application failed affordability tests. They provided a copy of a suitability letter which said the mortgage was affordable. They said they wouldn't have repaid the debts if they hadn't been advised to do so, and told they'd passed affordability requirements and other checks.

I'm sorry that there's been a delay in issuing my final decision. I wanted to ask NatWest about the suitability letter and what Mr N and Mr M said. I wanted to ensure I understand what happened here, given the very different accounts provided by the parties.

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.

Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

Mr N and Mr M contacted NatWest about a mortgage. NatWest issued a decision in principle and made an appointment for them with a mortgage adviser.

During the appointment, the mortgage adviser found Mr N and Mr M had a loan and credit card debt they hadn't disclosed. NatWest says once this was added to their expenditure, the application didn't meet affordability requirements and the application was paused. Mr N and Mr M repaid some debt after which their application passed NatWest's affordability tests. But NatWest then carried out a credit check and the application was declined.

Mr N and Mr M say this isn't right. They say they were told they'd passed affordability and other checks. And it was then that NatWest advised them to repay debts.

It's unfortunate there isn't a recording of the call and I appreciate Mr N and Mr M's frustration about this. The suitability letter is, confusingly, dated before the meeting with the mortgage adviser. It's unclear whether the letter was issued after the debt was repaid, or before, and if so whether this was on the basis the debt would be repaid.

Taking all the circumstances into account, I think what NatWest said is likely correct. I don't think I can fairly find that NatWest advised Mr N and Mr M to repay debts. It's not clear why – if the mortgage was affordable with the debts outstanding – this would be the best course of action. I don't know why the application would have been paused if affordability requirements had been met. I think it's more likely affordability was a problem, and Mr N and Mr M felt they had to repay some of their debt, if they wanted their application with NatWest to continue.

Nonetheless, NatWest's adviser knew that Mr N and Mr M intended to repay debts and I've thought about what she should have done at this point. She couldn't reasonably have continued with the application, which had failed affordability tests, unless Mr N and Mr M's circumstances changed. She paused the application until Mr N and Mr M confirmed they'd paid off some debt. The alternative would have been for the adviser to say she wouldn't take the application further, regardless of whether the debts were repaid. I don't think this would have been fair. Given Mr N and Mr M's application had failed affordability tests, I don't think it's reasonable to say the adviser should have run a credit check, which would have left a record on their credit files, at a point when the application couldn't proceed.

But repaying debts, and thereby reducing the amount they had available for a deposit, potentially had consequences for Mr N and Mr M. It's not clear that the adviser made them aware of this. She couldn't tell them how other providers would view their application if they weren't successful in obtaining a mortgage from NatWest. But she could have suggested Mr N and Mr M look into this – possibly with the help of an independent financial adviser – before repaying the debts.

But I don't think the outcome would have been different if she had. From what Mr N and Mr M have said, they knew they had to choose how to use their savings – to reduce debt or towards their deposit – and this could potentially affect what mortgages and interest rates were available. At this point, NatWest had said their application was unaffordable due to their outstanding debt. From what they say, Mr N and Mr M expected NatWest to assess the

mortgage as affordable if the debt was reduced (which in fact it did). So I think, even if the adviser had warned them of the possible risks and suggested they take independent advice, it's likely they would have still repaid the debts in the hope this would allow the mortgage to proceed.

Mr N and Mr M say they wouldn't have repaid the debts if NatWest hadn't said they'd passed all checks and there wouldn't be a problem with their application. But their application had just failed affordability checks due to debts they hadn't disclosed. NatWest's adviser couldn't have known Mr N and Mr M's application would fail credit checks. But, in the circumstances, I think it's unlikely NatWest would have given them assurances there would be no further problems.

I don't think it's reasonable to require NatWest to remove the credit search from Mr N and Mr M's credit records. I think it was fair for NatWest to carry out the search as part of the application process.

Mr N and Mr M have taken out a mortgage with another provider. They say the amount they borrowed increased because they had less money available for a deposit. But repaying the debts would have reduced their monthly outgoings, meaning they had more income available for the mortgage payments. I can't be certain they'd have been able to obtain a mortgage for the same amount, over the same term or at a better interest rate if the debt was outstanding. So I can't fairly find that they've suffered a financial disadvantage. It follows that I don't think it's fair and reasonable to require NatWest to pay compensation to Mr M and Mr N.

Mr N and Mr M say they are looking at getting legal advice into how they've been financially disadvantaged. If they don't accept my decision, they will be free to raise their concerns in a court, if they choose to do so.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mr N to accept or reject my decision before 19 August 2020.

Ruth Stevenson
Ombudsman