DRN-2863538

## The complaint

Mr M complains about the way Fleet Mortgages Ltd handled his re-mortgage application. He's unhappy that Fleet would not extend his interest rate product after it expired, and that they insisted he repaid the mortgage payments missed as a result of a covid-19 related payment deferral before he could re-mortgage.

## What happened

Mr M had a buy-to-let mortgage with Fleet. The mortgage was on a fixed interest rate of 3.39% until 31 May 2020. After that date, the mortgage was due to revert to a variable rate which was 4.74% above LIBOR.

Fleet don't accept product switch applications on their mortgages directly, so in March 2020 Mr M applied to re-mortgage with them, taking out a new interest rate product. He made the application through a broker. Due to the impact of the pandemic, Fleet were unable to arrange for a surveyor to go out and value the property. Mr M's broker asked if Fleet would be able to agree to a desktop valuation instead, but Fleet said that wouldn't be possible, so the application didn't proceed.

In April 2020 Mr M successfully applied for a three month payment deferral on his mortgage, as his income, and the income of his tenants, had been impacted by the covid-19 pandemic. Mr M also asked Fleet to extend his current interest rate product by three months, as he'd been unable to secure a new rate for reasons outside of his control, and was worried about the mortgage moving onto the variable rate which would increase his monthly payments at a time he was already struggling.

Fleet told Mr M they wouldn't be able to extend the interest rate product, and Mr M complained. Fleet issued their final response letter in May 2020. They said that they were unable to offer extensions of mortgage products, as the way they're built does not facilitate that and it would constitute a breach of their funding agreements with their respective funders. They said that they were doing what they could to help borrowers adversely affected by the pandemic, however granting an extension to a fixed term product was not something they could accommodate.

On 20 May 2020 Mr M applied for another re-mortgage with Fleet. A valuation of the property was completed, which Mr M disputed. The appeals process was followed but ultimately unsuccessful. Fleet also had concerns about agreeing to a new mortgage on a new fixed rate whilst Mr M was unable to make his mortgage payments. As a result, they said they would only proceed with the application if Mr M could repay the missed payments during April, May and June 2020. Mr M repaid the outstanding amount and a mortgage offer was issued on 2 July 2020. The new mortgage completed later that month.

Mr M asked our service to look into what had happened. He didn't think it was fair he had to pay the bank's variable rate for June and July when he was unable to secure a new rate for reasons beyond his control. He was also unhappy that Fleet had required him to repay the outstanding amount accrued during the payment deferral before they'd offer him a re-mortgage. He said he'd had to borrow money at short notice and the whole situation caused him a lot of mental distress and anguish.

Our investigator looked into things and explained that he didn't think Fleet were acting unreasonably by not extending his fixed rate mortgage product. He explained that wasn't something they were able to do. However, he didn't think Fleet were acting reasonably when they asked Mr M to repay the outstanding payment amounts before they would offer him a re-mortgage. He didn't think that was treating him fairly when he was already going through a difficult time, and he said they should have offered for him to repay that amount over a longer period. He didn't see there'd been any direct financial loss caused by Fleet's actions, but he did recommend that Fleet pay Mr M £300 for the distress and inconvenience caused.

Neither party accepted the investigator's opinion.

Mr M said that whilst he was happy for the deferred payments to be repaid over the term of the mortgage, he thought £1,000 was a more appropriate amount to recognise the distress and inconvenience he'd experienced.

Fleet said that as this was a re-mortgage, not just a product switch, they weren't able to roll over the deferred payments in order for them to be repaid over a longer term. They gave more detail about how their mortgages are funded – and essentially said, the original mortgage would have been funded by one funding partner, but the re-mortgage would have been funded by a different funding partner. And so they need to repay the first funding partner in full when the mortgage is redeemed. That would include the deferred payments. They said it wouldn't have been possible to have done what the investigator suggested without breaching their agreements with the funding partners.

Our investigator wasn't persuaded to change his opinion, so the complaint'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.

*The valuation*

Mr M applied for a re-mortgage with Fleet in March 2020, which in ordinary circumstances would usually have been sufficient time for the re-mortgage (and the new interest rate) to have completed before his existing one expired on 31 May.

However, as a result of the pandemic, severe delays were caused across the industry from March 2020 onwards when it came to mortgage applications. One reason for that was because surveyors could not go out to value properties. Fleet told Mr M's broker in April 2020 that they wouldn't be able to complete a survey on the property, and so they couldn't proceed with the application until that changed. Mr M's broker requested that a desktop valuation was completed instead, but Fleet declined to take this any further.

Fleet have provided details of their policy which sets out that a full valuation is required for any mortgage application. They said they do not rely on desktop valuations. Lenders are entitled to set their own policies to reflect the level of risk they're willing to take on when lending a mortgage. And Fleet have followed their policy when considering Mr M's application.

I've considered whether it would have made a difference to the application had Fleet allowed the re-mortgage to go ahead based on the outcome of a desktop valuation, and I don't think it would have. I say this because Mr M had said the value of the house should have gone up considerably following extensive works he'd had done. He challenged the physical valuation after it had eventually been completed because he didn't think it had taken account of the improvements he'd made. That caused delays during the second application he made. Given he wasn't happy with the outcome of the physical valuation, I very much doubt he would have accepted a desktop valuation which was even less likely to have taken account of any improvements made to the property since the last valuation in 2018. So, I don't think

Mr M has lost out as a result of Fleet's decision not to proceed on the basis of a desktop valuation.

*Mr M's request for an extension of his interest rate product*

As a result of the valuation not being able to take place before May, Mr M's mortgage moved onto Fleet's variable rate in June 2020 which increased his monthly payments significantly. So Mr M asked Fleet to extend his fixed interest rate period in the meantime.

I don't think it was unreasonable of Fleet to decline Mr M's request. The Financial Conduct Authority (FCA) issued guidance to lenders about how they should support borrowers who were impacted by the pandemic. This guidance applied equally to buy to let mortgages such as this one – even though they're not regulated mortgages. And as a result of that guidance, Fleet gave Mr M a three month payment deferral. So he did not have to make the higher payments when the mortgage moved onto the variable rate at the time. There was no guidance issued that said lenders should consider extending interest rate products, or amend the interest rate payable for those impacted by the pandemic. The help lenders were encouraged to give was to allow borrowers to pause payments whilst they may not have been able to make them. That is what Fleet offered to Mr M and he didn't need to make any payments for three months as a result. Given the circumstances, I think that was reasonable.

*The re-mortgage and deferred payments*

I think it's relevant to note that Fleet's business model is such that they don't offer product switches to any of their existing borrowers. So if a borrower wants to take out a new interest rate on expiry of their old one, they need to complete a re-mortgage application through a broker and Fleet would consider that as a brand new application from a new customer, as opposed to making changes to an existing mortgage. There's nothing inherently wrong or unfair about that as a starting point, as all their customers are being treated in the same way.

When Mr M's payment deferral ended, Fleet sent him a letter to explain what his options were for repaying the outstanding amount. That letter said it was in Mr M's best interests to repay the deferred amount as soon he could in order to minimise the interest he would pay. But, if he was unable to do that, he could choose to make an arrangement to repay the amount over a set period. As the deferred amount would accrue interest, they recommended Mr M repay the amount over the shortest period he could afford from the options of 3, 6, 9, or 12 months. The letter also explained that there may be other options, and encouraged borrowers to contact them if they were still experiencing financial difficulty.

The FCA issued guidance to lenders about how they should treat borrowers at the end of a payment deferral. This guidance encouraged both parties to engage about what would be the most appropriate for the borrower in the circumstances, bearing in mind what was affordable for them at the time. Fleet encouraged Mr M to call and discuss what would be best in his circumstances, which I think was reasonable.

But Mr M did not want to keep his existing mortgage. He had applied to re-mortgage, which meant repaying the existing borrowing and taking out new lending. So the options that Fleet had previously told him about were no longer relevant.

Fleet were considering a new borrower application from Mr M at the time, and I think it was reasonable that they would have concerns about the fact that for the three months leading up to the application, Mr M was unable to make his monthly payments. I don't think it would have been responsible for Fleet to agree to the lending without being comfortable that the new mortgage payments would be affordable for Mr M.

But I do think Fleet could have handled the situation better. I don't think they needed to request that those deferred payments were made before they'd agree to the further lending. I think it would have been reasonable for them to assess Mr M's affordability for the new mortgage amount (which would have included the deferred payments) based on his circumstances at the time. But as part of that assessment, Fleet would have wanted to see that Mr M would be able to make the payments required under the new mortgage contract. So if Mr M was unable to make up the deferred payments, they would have wanted to know how we was going to afford the payments moving forward. That was something Fleet were required to check in order to ensure they were lending responsibly.

Mr M's application for the re-mortgage was submitted in May 2020, and that was based on the mortgage balance that was outstanding at the time, which should have included the deferred payments that had not been paid as per the mortgage agreement. I don't agree with what Fleet have said about their reasons for not being able to capitalise the deferred payments onto the mortgage balance. If Mr M had not repaid the deferred payments, the outstanding mortgage balance would have remained as it was. He would have applied to borrow that outstanding balance from Fleet again via the re-mortgage, and so Fleet would still have received the original mortgage funds back to fulfil their own agreements with their funders. So I don't think it was necessary for Fleet to insist Mr M repay those deferred payments for that reason.

But, as I've said, Mr M was applying for a mortgage at a time when he'd told Fleet he was unable to make the monthly payments as a result of the pandemic, and so I think it was reasonable that Fleet wanted some sort of assurance the payments under the new mortgage agreement would be affordable for Mr M. It seems the repayment of the deferred payments gave Fleet that reassurance. It's clear Mr M was keen for this mortgage to go through as quickly as possible to avoid being on the variable interest rate longer than he needed to be.

In any event, Mr M was able to repay the amount in full and he hasn't said there was a direct financial loss from him having to do that. By repaying the amount as a lump sum, he has avoided the need to pay interest on the amount, which will be cheaper than it would have been to add it to the new borrowing. I'm also mindful that this is a buy-to-let mortgage that Mr M has for business purposes (as well as others), and so if the terms of the re-mortgage were not favourable for Mr M, he was free to look elsewhere and apply for a mortgage with a different lender.

Overall, I'm satisfied it was reasonable for Fleet to have concerns over whether Mr M would be able to afford the re-mortgage following the payment deferral. Whilst I think they could have handled things better, Mr M was able to repay the amount in full without incurring any additional costs, which ultimately was in his best interests.

But I do think Fleet caused Mr M distress and inconvenience by requesting he repay those funds at short notice in order to get the mortgage approved. Mr M has said he had to borrow the money and this caused him great mental distress. The investigator recommended Fleet pay Mr M £300 to recognise that distress and inconvenience and I think that's a reasonable amount.

## Putting things right

I appreciate this was a stressful time for Mr M, and I understand why he wanted the mortgage application to proceed as quickly as possible in order to avoid his mortgage reverting to the higher variable rate. But whilst it was unfortunate that this was timed around the start of the global pandemic, I'm not satisfied that Fleet treated Mr M unfairly when refusing to extend his interest rate product. I do however think they should have handled the re-mortgage application differently for the reasons I've explained above. As a result, I'm satisfied they should pay him £300 for the distress and inconvenience caused.

## My final decision

Considering everything, for the reasons I've explained, I uphold this complaint and instruct Fleet Mortgages Ltd to pay Mr M £300 for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 June 2022.

Kathryn Billings
**Ombudsman**