

The complaint

Mr and Mrs H complain that Bank of Scotland plc trading as Halifax undervalued their property, which meant they were offered a higher interest rate on their mortgage.

What happened

Mr and Mrs H have a mortgage with Halifax, which is made up of six separate sub-accounts.

In 2019, the interest rate on four of the sub-accounts expired, and Mr and Mrs H asked Halifax for a new rate. Halifax said based on its valuation of their property, it could offer them a five year fixed rate of 2.18%.

Mr and Mrs H didn't agree with Halifax's valuation of their property of around £400,000. They said they had carried out extensive improvements and had been advised the value was over £650,000 – which meant they should be entitled to the rate from the lowest loan to value band. The equivalent rate is 2.05%.

Mr and Mrs H complained. Halifax said that it based its valuations on a computerised model, looking at sale prices and house price inflation. It said there was no means of appealing a valuation and it would not accept Mr and Mrs H's estimate or allow a formal valuation by a surveyor. It wouldn't change the loan to value banding or the rate it offered Mr and Mrs H. Our investigator didn't think Halifax had acted unfairly, so Mr and Mrs H asked for their complaint to be reviewed by an ombudsman.

My provisional decision

I issued a provisional decision in which I said:

It's not unreasonable for Halifax to use a house prices index to derive valuations for its product switches – it would be disproportionately time consuming and expensive to carry out a physical valuation every time a customer asks for a new rate.

However, in this case, Mr and Mrs H pointed out – on reasonable grounds – that the valuation was likely to be incorrect. They explained that they had carried out significant renovations and improvements to the property which had increased its value.

That sort of home improvement isn't reflected in an index valuation. And therefore I think that Mr and Mrs H have a point that the valuation Halifax used to offer them a new rate may well have been incorrect.

I don't, however, place much reliance on the estate agent's figure Mr and Mrs H have quoted. An estate agent's estimate is not a formal valuation and is at most an estimate of initial asking price were the property to be marketed.

In my view, what should in fairness have happened here is that when Mr and Mrs H pointed out that the index valuation was likely to be wrong – with good reasons for saying so – Halifax should have allowed a physical valuation to find an accurate valuation for the

property. It's reasonable to use an index valuation where it's a reasonable estimate – but where there are good grounds for believing it to be wrong, as here, I don't think it was fair for Halifax to refuse to consider that.

Had Halifax allowed a physical valuation at the time of the application, it would have been reasonable for that to have been at Mr and Mrs H's expense. And it would have required a qualified surveyor – not an estate agent – to carry it out.

To put Mr and Mrs H back in the position they would have been in had this happened would require a valuation to be carried out now, at Mr and Mrs H's expense. But it's not straightforward to carry out a retrospective valuation. So the valuation would either have to be an estimate of what the property was worth more than two years ago – or require an estimate to be made of the valuation then by comparing the difference between the survey and index valuations now to the index valuation then.

However, that is a relatively complex way of resolving what is a relatively low value issue – since the difference in interest rate is only 0.13%, applied to four of the six sub-accounts on the mortgage, the extra interest charged each month is small. I estimate it to be less than £200 per year in total. So Mr and Mrs H's losses to date are perhaps £400 – against which should be set the costs of the valuation they would have had to pay. Overall, therefore, their financial loss is not very substantial even if it can now be shown that the index valuation was wrong.

With that in mind, I think it would be disproportionate to require Mr and Mrs H and Halifax to go through the whole process of paying for a valuation, valuing the property, retrospectively re-calculating the 2019 valuation and – depending on the outcome – adjusting the mortgage.

My remit allows me to award what I consider to be fair compensation in all the circumstances. There are times when it is fairer to take a simple, broad brush approach rather than embark on a lengthy process that exactly puts matters back in the position they would have been in had things not gone wrong. I intend to apply that approach to this case. I do so bearing in mind that:

- it's not certain the valuation was wrong but if it was the financial loss is relatively small each month and overall;
- had things gone as they should, Mr and Mrs H would have had to pay for a formal valuation. The saving on this should be offset and reduces their losses;
- if the index valuation was wrong and they were entitled to a slightly lower rate, a lump sum now means Mr and Mrs H will receive some compensation before part of any loss – in the form of higher future monthly payments – is incurred and to that extent are better off; and
- Halifax's failure to consider their reasonable objection to the index valuation caused them some distress and inconvenience.

In all the circumstances, I think fair compensation is £400.

The responses to my provisional decision

Halifax accepted my provisional decision. But Mr and Mrs H did not. They said it was very likely that a formal valuation would have increased the loan to value band. And they said that had that happened, the saving would have been up to £75 per month, meaning that my proposed award of £400 was not enough.

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've reconsidered again what I said in my provisional decision in light of Mr and Mrs H's response to it. In particular, I've thought about whether my proposed award represents fair compensation.

I'm afraid I don't agree that the difference in monthly payment would have been up to £75. As I said in my provisional decision, the difference in interest rate was between 2.18% and 2.05%. This is a difference of 0.13%.

This is a repayment mortgage. Regardless of the interest rate, Mr and Mrs H would have to repay the capital – and the same amount of capital would be payable each month whatever the rate. Changing the interest rate only changes that part of the monthly payment which represents the interest charged.

Not all of Mr and Mrs H's mortgage was on the disputed rate, since there are several separate sub-accounts. Less than £145,000 was on the 2.18% rate when it started in 2019. The remainder was on a separate rate which expired (and was replaced) in 2020, and is not the subject of this complaint.

As I say, it is only the amount of interest charged – not the amount of capital payment – which is affected by the interest rate. A difference in the annual interest rate of 0.13% (from 2.18% down to 2.05%) means a difference in annual interest of around £190:

$$145000 \times 0.0013 = 188.50$$

Or to calculate it a different way:

$$145000 \times 0.0218 = 3161$$

$$145000 \times 0.0205 = 2972.50$$

$$3161 - 2972.5 = 188.5$$

Therefore, as I said in my provisional decision, I'm satisfied that the difference in the interest rate that it's likely Mr and Ms H would have got had a formal valuation been carried out and had they got a lower rate as a result is a little under £200 per year.

As I said in my provisional decision, in setting compensation I need to bear in mind that Mr and Mrs H have suffered that loss, and that they were upset and concerned by Halifax's refusal to reconsider the valuation – as it should fairly have done. It's fair that Halifax compensate them both for that financial loss and for the upset caused. But it's also fair to take into account that Mr and Mrs H would have had to pay for a formal valuation – and Halifax's refusal means they've saved that cost.

Putting things right

I don't know exactly how much a formal valuation would have cost at the time – probably a few hundred pounds. Without knowing that for certain, I can't accurately offset the saving they made from their losses.

Equally, calculating their exact losses is a complex calculation. The figures I've given above are a broad brush estimation. Calculating it exactly would involve re-working Mr and Mrs H's mortgage, as well as adding in interest on additional payments made which left them out of pocket – but also noting that some losses have not yet been incurred. A precise award would include:

- Losses:
 - Around £190 per year for almost three years to date, plus simple annual interest of 8% on overpayments already made;
 - Around £190 per year for two further years not yet incurred.
- Gains:
 - Saving on the cost of a formal valuation – a few hundred pounds;
 - The benefit of having losses between now and 2024 paid up front, before they are incurred;
- Compensation for the distress and annoyance of not being allowed to contest the valuation.

That's a complex calculation, including unknown factors, as well as the need to take account of the net present value of future losses paid up front. Gains would be offset from losses.

Factoring all of that in, I remain of the view that, for reasons of proportionality and simplicity, it's fair to make a broad-brush award in this case. I remain of the view that £400 is fair compensation. That takes into account that extra costs in interest would be largely – if not entirely – outweighed by the valuation cost, and that while I don't doubt that Mr and Mrs H feel strongly about this complaint, the impact on their monthly payments is small.

My final decision

For the reasons I've given, my final decision is that I uphold this complaint and direct Bank of Scotland plc trading as Halifax to pay Mr and Mrs H £400 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H and Mr H to accept or reject my decision before 13 June 2022.

Simon Pugh
Ombudsman