

## The complaint

Miss M's complaint is about an application for a mortgage she made to Nationwide Building Society. She is unhappy that the application was declined, believes Nationwide's decision was wrong and that it treated her unfairly.

## What happened

Miss M applied for a mortgage with Nationwide on 25 January 2022. She wanted to borrow £100,000 on a repayment basis over a term of 27 years. An interest rate product was to be attached to the mortgage, fixing the interest rate at 1.52% for five years.

A valuation of the property was arranged. The valuation completed on 7 February 2022 gave the following advice to Nationwide:

*'The starting ground rent is more than 0.1% of the total value. This type of building warranty is not acceptable. The property is a light industrial to residential conversion where there is no residential land use or neighbourhood within the immediate area and therefore outside Nationwide policy. A value cannot be provided until a Structural Engineer or Building Surveyor's report is provided by the developer confirming suitability for residential conversion regarding structure and condition.'*

The surveyor subsequently confirmed that the engineering evidence was requested in the event that Nationwide decided to waive the criteria regarding the location of the property.

The information provided by Nationwide on this issue shows that the building Miss M's flat is located in is one of three on a site. All three of the buildings were converted as one development from offices to residential units. The site the buildings are on was surrounded on three sides by industrial properties, by which it is meant buildings that were used for commercial, rather than residential purposes. On the fourth side, the site abutted a road, with residential properties opposite. The surveyor confirmed that the building Miss M's flat is in directly overlooked industrial properties.

A few days after the valuation was produced, Nationwide asked Miss M to obtain the engineering report detailed in the valuation. She was also told that the ground rent would need to be reduced.

Miss M and Nationwide exchanged correspondence, and reports and information was provided by Miss M to deal with the ground rent and engineering issues. However, on 8 March 2022 Miss M was told that the application had been declined. This was due to the property not fitting with Nationwide's lending criteria because of its location, in particular the fact that the block the flat was in backed onto operational industrial buildings. Miss M complained.

Nationwide responded to Miss M's complaint, but didn't uphold it. It said that it had asked the surveyor why it had asked for the structural engineer's report and it had been confirmed that this was due to the structure of the building that contained her flat, having originally been used for industrial purposes. It was requested in the event that it might allow Nationwide to

lend on the property, despite it not complying with Nationwide's criteria. Following receipt of the information, the valuer had repeated that the property wasn't suitable security. Nationwide didn't consider it had done anything wrong in its handling of the application or in rejecting it.

Miss M wasn't satisfied with Nationwide's response and asked us to look into her complaint. When doing so she explained that she'd found the whole process of dealing with the application frustrating and unsatisfactory. This was because she thought the decision Nationwide made was incorrect, given that another lender had accepted an identical application within two weeks of the rejection. Miss M said that she wasn't given a proper reason for the rejection and what she was told was inadequate. In addition, the application was badly handled, with endless delays, that meant she ended up paying out more in rent. Miss M also commented that the interest rate she obtained with the new lender was higher and so meant she'd had to take the mortgage over a longer term in order to reduce the payments to around the same level as the mortgage with Nationwide would have required.

One of our investigators considered the complaint, but he didn't recommend that it be upheld.

Miss M didn't accept the investigator's view and disputed that she'd been told by Nationwide that there was a problem with the property. She repeated that she disagreed with the surveyor's assessment of the property as there were residential properties on two sides. However, that said, Miss M argued that if Nationwide was going to decline the application because of the nearby industrial properties, it should have told her that when the valuation was received, rather than asking for further information that made no difference to that issue.

Our investigator considered what Miss M said, but it didn't change his conclusions. Miss M remained of the opinion that Nationwide treated her unfairly. She reiterated her reasons for believing the decision not to lend was wrong and for believing that the application hadn't been handled correctly. As agreement couldn't be reached, it was decided the complaint should be referred to an ombudsman.

I issued a provisional decision on 23 September 2022 in which I set out my conclusions and reasons for reaching them. Below is an excerpt.

*'I believe it would be appropriate at this stage to explain that lenders are not property experts. They decide what types of properties they are willing to lend on and accept as security, and different lenders will have different criteria for what they are willing to lend on. However, they don't have the expertise to complete an assessment of individual buildings/properties to determine whether they are a suitable risk. As such, they commission valuations from suitably qualified external experts; usually surveyors. A lender is not responsible for the findings of the expert, but it is able to rely on the expert opinion.*

*In this case, the external expert told Nationwide that Miss M's property was not suitable, based on Nationwide's criteria. Therefore, Nationwide was entitled to decline the application on that basis. I can't find that it acted inappropriately or treated Miss M unfairly when doing so.*

*That conclusion leads me to consider what happened after the first time the surveyor expressed the opinion that the property was not suitable for lending purposes. Much has been made of the fact that the valuation comments were provided to Miss M. I don't consider that is relevant. The valuation was produced solely for Nationwide's use. As such, when it was received Nationwide should have reviewed the information provided. This clearly said that the property fell outside Nationwide's criteria because of its location. While it then suggested further information be provided for the valuer to assess whether the conversion*

*had been done properly and to address a problem about the ground rent, that doesn't negate the statement that the property was not suitable security because of its location.*

*I consider at this point Nationwide should have made the decision as to whether it was willing to lend due to the issues with the location. It doesn't appear that it made that assessment for several more weeks and until after Miss M had been asked to provide further information, which was not relevant to the reason the property was not considered to be suitable security. I am satisfied that in delaying this assessment until after Miss M had provided the irrelevant information, Nationwide delayed the application process by four weeks and put Miss M to unnecessary trouble in obtaining it.*

*When it has been established that a financial business has made an error, we must consider what position a consumer would have been in, but for the mistake. In this case, it's reasonable to say that Miss M would have been told four weeks earlier that her application had been declined. So she would have been in a position to look for a new mortgage four weeks earlier than she was and, would likely have completed on her purchase the around the same amount of time earlier.*

*Miss M has mentioned that she paid an additional month of rent before moving into the property. This seems likely, as she would have needed to continue living somewhere until she could complete on her purchase. However, had Miss M moved into her home four weeks earlier, she would have had to make a mortgage payment to cover that period. A significant portion of that payment would have been interest, from which Miss M wouldn't have gained any benefit.*

*As such, Miss M should provide evidence to Nationwide of the cost of her accommodation for the four weeks before her purchase completed and details of her current mortgage. From the rent figure for the four weeks, Nationwide should deduct the interest Miss M would have paid on her mortgage in those four weeks. If this calculation shows that Miss M suffered a loss, the amount of that loss should be paid to her. I would make Miss M aware that given the majority of the mortgage payment would have been interest, this calculation may not result in a significant amount, if anything at all.*

*Miss M has also said that because Nationwide turned down her application, she ended up with a mortgage with a longer term to keep the monthly payment affordable. I don't propose to make an award in this respect as I haven't found that Nationwide was wrong to turn down the application. So Miss M would never have been entitled to the interest rate on the Nationwide mortgage and would always have had to seek an alternative mortgage with a different lender at an interest rate and term it was willing to offer.*

*However, I do consider that Miss M should be compensated for the poor service she received from Nationwide, the additional effort she was put to in providing unnecessary information and having had her expectations raised. That must, however, be tempered by the fact that the situation was short lived. I am currently minded to conclude an appropriate amount would be £250.'*

Miss M accepted my provisional decision and provided information for Nationwide to use to complete the calculation to determine if she had suffered a loss from having to pay another four weeks rent. Our investigator will forward this information to Nationwide if Miss M accepts this final decision.

Nationwide confirmed that it had received my provisional decision and that it had nothing further to add.

### **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.

As neither party has disagreed with my conclusions or provided any further evidence, I see no reason to change my conclusions.

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### **My final decision**

My decision is that I uphold this complaint in part. I require Nationwide Building Society to calculate if Miss M suffered a loss from having to pay an additional four weeks rent, rather than a payment to her mortgage. In addition, it should pay her £250 compensation.

Under the rules of the Financial Ombudsman Service, I am required to ask Miss M to accept or reject my decision before 16 November 2022.

Derry Baxter  
**Ombudsman**