

The complaint

Ms A and Mr R's complaint is about an application for a further advance on the mortgage they arranged with National Westminster Bank Plc in 2021. They're unhappy that NatWest won't give them additional borrowing, and they have asked that they be allowed to re-mortgage elsewhere without paying the early repayment charge (ERC) linked to the interest rate product attached to the mortgage.

What happened

Ms A and Mr R sought advice from an independent mortgage broker in 2021. They applied and were accepted for an interest-only mortgage with NatWest for £1,575,000 over a term of 19 years and 9 months. Attached to the mortgage was a fixed interest rate product with an ERC payable if the mortgage was paid off during the product term, which will end on 30 June 2023. The repayment vehicles for the mortgage were four pensions and an investment account. The mortgage completed in June 2021.

In August 2021 Ms A and Mr R approached NatWest direct to discuss arranging further borrowing on an interest-only basis for home improvement purposes. As works were being done on the property, the appointment with the mortgage adviser was postponed several times, and eventually took place in February 2022. At that time it was confirmed that Ms A and Mr R had done works to the house that they believed had increased its value to £3.1 million. They wanted to increase their borrowing by approximately 50%, up to the maximum loan to value allowed on an interest-only basis of 75%. By this point Ms A and Mr R had changed the purpose of the further advance; it was now to fund the cost of furnishing the property (£370,000) and the remainder of the advance would potentially be used for landscaping the garden and purchasing a holiday home, which they might rent out when they weren't using it.

There were two substantive conversations about the application at the beginning of February 2022. Ms A and Mr R wanted to use the existing repayment vehicles for the further advance too. The adviser explained that she had to ensure the repayment vehicles would support the existing mortgage before assessing whether the further borrowing could be granted. Initially the mortgage adviser thought Ms A and Mr R's existing repayment vehicles consisted of only the four pensions. As such, she concluded that the existing repayment vehicle wasn't sufficient to have supported the main mortgage and questioned how it was granted. Mr R introduced the investment account and gave details. When the adviser initially looked at the combined repayment vehicle, she again thought that they wouldn't be enough, as she mistakenly believed only the then current value was taken into account in the assessment, ignoring any potential growth over the term of the mortgage. However, it appears that she subsequently input the information into the repayment vehicle 'credibility calculator', which confirmed that the pensions and investment were sufficient to support both the existing and new borrowing.

The conversation then turned to the purpose of the further borrowing. The adviser explained that NatWest would want to know what the money was to be spent on and wouldn't grant the advance if there were no definitive plans for the money. The use of the money would need to

be evidenced in the form of quotes for the landscaping and details of a property that Ms A and Mr R were planning to buy. It was confirmed that Ms A and Mr R hadn't looked into the cost of the landscaping and didn't have any properties in mind to purchase. It was explained that NatWest was unlikely to allow the amount of borrowing on that basis. Mr R said that he and Ms A would discuss their plans and speak to the adviser again. While he wanted to delay the appointment for the follow-up discussion, the mortgage adviser's diary didn't allow for an appointment at the time Mr R proposed, and so it was decided they would keep the appointment for the following day.

Ms A and Mr R's plans for the money weren't discussed the following day. This is because the adviser had been reviewing the information Mr R had provided about the investment account. She questioned that not all of the value of the account was immediately accessible, which Mr R confirmed was the case. He explained that the access restriction was only in place for two years, at which point he would be able to access all of the value of the account. The adviser explained that NatWest would only accept investments where the value could immediately be accessed as repayment vehicles. As such, only the portion of the value of the investment account that was accessible immediately could be used as the repayment vehicle for the mortgage. This meant that the repayment vehicle wouldn't support the further borrowing and the application couldn't progress.

Ms A and Mr R complained. They said that they'd taken the mortgage on the basis that they'd want additional borrowing and if they'd known they couldn't have it on an interest-only basis, they wouldn't have tied themselves into a fixed interest rate.

NatWest discussed the complaint with Mr R and it was agreed that, if the broker wasn't able to assist Ms A and Mr R by making a successful application for the further borrowing, NatWest would consider whether it could waive the ERC as an exception.

Ms A and Mr R referred their complaint to this service as their broker was unable to process an application for the further borrowing they wanted.

NatWest explained to us that its lending criteria required that the repayment vehicle had to be sufficient to cover both the original mortgage and the additional borrowing. It assessed Ms A and Mr R's repayment vehicles and had determined they weren't adequate. It also confirmed that a request for the ERC to be waived was escalated within NatWest, as the broker wasn't able to submit an additional borrowing application, but the request was declined.

One of our investigators considered the complaint, but he didn't recommend that it be upheld. He highlighted that there was no evidence of NatWest having been told that Ms A and Mr R were likely to want additional borrowing shortly after the mortgage was advanced. As the ERC had been explained in the mortgage offer Ms A and Mr R had accepted, he didn't think there were any grounds for the ERC to be waived. As such, he didn't consider NatWest would be acting inappropriately in applying an ERC if the mortgage was paid off before the end of the interest rate product term.

Ms A and Mr R didn't accept the investigator's opinion. They said that the mortgage adviser in February 2022 had said that NatWest shouldn't have approved the original mortgage application, but it would honour the mortgage as it had been its mistake. Due to this, they had a mortgage that was unsuitable for them. They also said that they'd been told that NatWest assessed the adequacy of a repayment vehicle differently depending on whether an application is made directly or via an independent broker. Ms A and Mr R considered that this difference discriminated against direct customers, and this should be disclosed upfront. They considered that it was unfair for NatWest not to make it known that additional borrowing won't be available to certain customers.

Our investigator responded by confirming that he'd enquired about the original mortgage being advanced, and NatWest had confirmed that there had been no issues with the affordability of that mortgage. He also reiterated that there was no reasonable way for NatWest to have known at the time of the original application that Ms A and Mr R would want additional borrowing at some stage. He remained satisfied that NatWest hadn't done anything wrong and the complaint shouldn't be upheld.

Ms A and Mr R weren't satisfied that the investigator had dealt with the complaint correctly. They asked that the complaint be referred to an ombudsman for consideration.

Following the complaint being passed to me I requested some further evidence from NatWest about how it assessed repayment vehicles and recordings of the telephone calls. It was confirmed that there was no difference between the assessment done on a direct application and one made through a broker. NatWest also provided its requirements for investment (including pension) repayment vehicles. While this required that the borrower needed to have the ability to encash the investment at the end point of the mortgage, there is no requirement for it to be able to be encashed in part or in full at the point of the mortgage advance.

I issued two provisional decision on this case. I concluded that the NatWest mortgage adviser was wrong when she told Mr R that the application couldn't progress because the repayment vehicles weren't sufficient. This was because she based her conclusion on the fact that Mr R was able to access less than half of the value of the investment account until 2024. As such, the remaining value of the account couldn't be used for mortgage purposes and that, combined with the pensions, wasn't enough to support the mortgage and the further borrowing.

However, NatWest had subsequently confirmed that the borrower only needed to be able to access the value of the investment at the end of the term. Mr R confirmed that the access restriction only applied to the account for the following two years. I concluded that if Mr R had been able to evidence the restriction only applied to the investment account for that period, I was satisfied that the full value of the account could have been used as the repayment vehicle. When the adviser had used that value the previous day, it had been confirmed that the repayment vehicles were sufficient to support both the main mortgage and further borrowing. So the application shouldn't have been stopped on the basis of an inadequate repayment vehicle.

There were, however, questions about the use of the funds Ms A and Mr R had applied for, and of course the application would have been dependent on the property value having increased by as much as they thought it had. Ms A and Mr R confirmed that they had borrowed, from various sources, the money they needed to finish their renovations and furnish their home. In addition, they provided evidence from their new lender supporting the increase in the value of their property. As such, I concluded that it was more likely than not that NatWest would have accepted the application for a further advance. However, as there was a limit on the amount that could be borrowed on a further advance of £500,000 it was clear that Ms A and Mr R wouldn't have been offered the amount they wanted. In addition, due to them not having specific plans at the time of the application for much of the money, there was also a distinct possibility that the amount NatWest would offer would be less than the £500,000 limit. I thought it likely that they would have sought a mortgage elsewhere in order to obtain all of the money they wanted.

I also concluded that the mistake potentially delayed Ms A and Mr R's plans. It also clearly caused confusion as the information they were being given didn't make sense at times, and caused them frustration. I considered they should be compensated for the poor service they

received. Given the timescales involved and, as it's not clear that the borrowing would have been approved, I considered a payment of £400 was appropriate in the circumstances.

Ms A and Mr R responded by explaining that due to the ERC that applied to the mortgage in early 2022, they would have accepted a further advance that would have only allowed them to finish their home renovations. They would then have re-mortgaged later in the year, as they did, after the ERC had reduced.

NatWest agreed to pay the £400 compensation. In addition, it offered to reimburse the difference between the interest Ms A and Mr R had paid on the money they had borrowed in order to complete their renovations, and the interest they would have paid had that money been advanced by NatWest on the mortgage between March and September 2022. It said that it would complete the mortgage part of the calculation using an interest rate of 1.92%, which was the best rate available in February 2022 when the application should have progressed. Ms A and Mr R would need to provide evidence of the agreements, amounts and interest paid.

This offer was put to Ms A and Mr R, with our endorsement. They told our investigator that they wanted to accept it. As such, the complaint has been passed back to me to conclude our process.

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.

In the circumstances of this complaint, I consider that the offer made by NatWest regarding the interest Ms A and Mr R paid on the money they borrowed to complete their renovation and furnishing of their home will fairly compensate them for the mistake that occurred in February 2022. I also remain satisfied that the appropriate amount of compensation for the upset and inconvenience they suffered is £400.

In order for NatWest to complete the calculation, Ms A and Mr R will need to provide NatWest with documentation evidencing the borrowing and the interest paid.

My final decision

My final decision is that I uphold this complaint. In full and final settlement of the complaint, I require National Westminster Bank Plc to pay Ms A and Mr R £400 compensation. It should also reimburse them the difference between the interest they actually paid on the funds they borrowed to complete their renovations, and what they would have paid if that money had been granted as a further advance on their mortgage.

Under the rules of the Financial Ombudsman Service, I am required to ask Ms A and Mr R to accept or reject my decision before 14 December 2022.

Derry Baxter
Ombudsman