

The complaint

Ms Z is unhappy Paratus AMC Limited, trading as Foundation Home Loans (“Foundation Home Loans”) declined her application for a buy-to-let mortgage.

What happened

Ms Z approached Foundation Home Loans to arrange a buy-to-let mortgage for a studio flat she wished to purchase. A surveyor registered with the Royal Institution of Chartered Surveyors (“RICS”) assessed the property and produced a valuation report in May 2022. As a result of the report, Ms Z’s application was declined.

Ms Z is concerned Foundation Home Loans has made a decision based on incomplete information and hasn’t applied its lending criteria correctly. She says this has caused her considerable stress and financial loss because of the various fees she had to pay. Ms Z thinks Foundation Home Loans should either seek a valuation from a different surveyor or compensate her for its decision.

Foundation Home Loans looked into Ms Z’s concerns but said it deemed the property unsuitable for a buy-to-let mortgage having relied on the opinion of a qualified surveyor. Foundation Home Loans explained the surveyor had reported that the property was less than thirty square meters, had the lowest energy efficiency rating of ‘G’, and that the future saleability of the property could affect its value. Foundation Home Loans confirmed the information Ms Z felt was missing would not change that.

Our investigator looked into Ms Z’s concerns, but they didn’t think Foundation Home Loans had done anything wrong. As Ms Z disagreed, the complaint was 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.

Having done so, I don’t think Ms Z’s complaint should be upheld, and I’ll explain why.

It’s important to note the ombudsman service does not regulate the financial services industry and we can’t force a business to lend to a customer if it doesn’t want to. Our role, in this case, is to decide whether Foundation Home Loans has followed the necessary steps to assess Ms Z’s application fairly according to its own lending criteria. And based on what I’ve seen, I think it has.

Foundation Home Loans considered Ms Z’s application using its normal assessment criteria which would include getting a valuation of the property. Foundation Home Loans asked a surveyor who was registered with RICS to complete the valuation report. So, the surveyor was suitably qualified to carry out the valuation and was acting independently from Foundation Home Loans. As such, Foundation Home Loans is entitled to rely on the surveyor’s report.

Looking at the valuation report, there were a number of issues with the property Foundation Home Loans would need to factor into its decision whether to lend or not. Firstly, the property was 26 square feet, which is lower than Foundation Home Loans standard requirement of 30 square feet for a studio flat. While Ms Z is correct in saying Foundation Home Loans has the ability to apply an exception to smaller properties in certain areas, this doesn't mean it has to. And, even if it had applied an exception for this, there were other concerns about the property.

The surveyor found that the property had the lowest energy efficiency rating of 'G', which is lower than Foundation Home Loans lending criteria permits. The surveyor also raised concerns about the future saleability of the property and said that this would have an effect on its value. So, Foundation Home Loans also had legitimate concerns about the loan to value of the property and the potential risks of offering a buy-to-let mortgage on it.

Ms Z says the price reflected the need to renovate the property and the surveyor didn't confirm what changes needed to be made. I understand why Ms Z has raised this challenge, but the surveyor's report was completed in order to provide Foundation Home Loans with an accurate reflection of the property's current state. Foundation Home Loans had to make a decision whether to lend or not based on the property as it was, and in doing so, it was entitled to rely on the information provided by the surveyor. The findings which showed the studio had the lowest energy efficiency rating would factor into this, regardless of whether Ms Z said she anticipated completing renovation work to the property before it could be rented.

Ms Z also says the surveyor didn't provide any information on the sale of comparable properties, so she doesn't think there's enough evidence to justify declining her application. Ms Z says researching comparable properties is a requirement under Foundation Home Loans lending criteria and is also required by RICS. Ms Z says she's provided her own evidence of similar properties that have been sold in the area, but Foundation Home Loans hasn't taken that into consideration.

While Ms Z has provided copies of other properties she thinks are comparable, I'm not qualified to say whether they are or not. That is the role of the surveyor. But I note Foundation Home Loans lending criteria says it would ask the surveyor to provide recent, comparable evidence, for both rental demand and recent sales. The valuation report goes on to say the surveyor was required to look for comparable properties that had sold within the last six months. And from what I've seen, the evidence Ms Z has provided relates to properties that sold over a year before the surveyor completed the report.

The surveyor's report suggests there were no comparable properties and it seems more likely than not their research into this led them to note that there could be saleability issues with the property. So, I don't think what Ms Z has said changes anything, and as I've said above, Foundation Home Loans is entitled to rely on the surveyor's valuation report.

If Ms Z still feels the surveyor has not completed a full report she would need to complain about that separately and to the appropriate alternative complaint handling service. That said, I understand Ms Z has already approached RICS in order to do this and has been told she wouldn't be able to complain as the service was provided to Foundation Home Loans, not to her. I can't comment on that further as it doesn't fall under our remit. But I have fully considered whether Foundation Home Loans did anything wrong, and I'm satisfied it didn't.

In summary, Foundation Home Loans obtained a report from a RICS qualified surveyor as I'd expect it to. Foundation Home Loans was entitled to rely on that report. The report raised concerns about the property which were not acceptable under Foundation Home Loans' lending criteria. So, Ms Z's application was considered fairly, but ultimately, the property was deemed unsuitable for a buy-to-let mortgage with Foundation Home Loans.

Ms Z was aware she would have to pay fees to purchase a new property, and there was never any guarantee her application would be approved. So, while I appreciate this will be disappointing for Ms Z, I haven't seen any reason Foundation Home Loans should refund the fees she paid or compensate her for being unable to lend to her on this occasion.

My final decision

For the reasons explained above, I do not uphold Ms Z's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms Z to accept or reject my decision before 19 January 2023.

Hanna Johnson
Ombudsman