DRN-3964342

The complaint

Mrs H and Mr M are unhappy with the delays caused by Target Servicing Limited's errors when they attempted to redeem part of their Armed Forces Home Ownership Scheme (AFHOS) loan.

What happened

Mrs H and Mr M have raised various concerns that they had with Target and have said it's taken them four years to be able to redeem part of their AFHOS loan. They made the following comments about Target:

- They lost their personal information, displaying an inability to store or process the data they held accurately, fairly and professionally.
- They failed and refused to demonstrate an understanding of the terms of the AFHOS scheme, as Mrs H and Mr M were repeatedly provided with incorrect information and Target breached the terms of the AFHOS scheme deliberately and without good reason.
- Staff were incapable of understanding the scheme or it's implications, such as delaying the redemption of the equity stake resulting in an increase to the amount. Mrs H and Mr M eventually had to pay to redeem the loan. Target failed to take any action to stop a financial loss – including Mrs H and Mr M having to go on the standard variable rate (SVR).
- The staff they interacted with demonstrated a level of incompetency not fit to be entrusted with dealing with the financial product that Target had a legal responsibility for administering.
- They used the wrong valuation thereby requested a higher redemption amount and took no action or responsibility to correct this. They also failed to issue the redemption statement in a timely manner.
- They demanded £200 in redemption fees as opposed to the £65 indicated under the terms of the scheme and refused Mrs H and Mr M the right to borrow further funds for property maintenance.
- Target mis-led the Homes and Communities Agency (HCA) in their investigation into their complaint regarding the date of their original contract.
- Refused to log and investigate their complaints or resolve their problems despite being made aware of them over a period of four years. Target treated them unfairly with no regard to their personal consequences and the damage that the incompetence of their staff has caused.
- Were unable to locate Mrs H and Mr M's account details throughout and eventually caused Mrs H mental strain and almost led to her abandoning her desire to redeem the loan.

Mrs H and Mr M bought their property in November 2011 and took out an AFHOS loan to part fund their deposit.

AFHOS loans are government funded shared equity loans. The lender is the government agency Homes England (formally HCA), and the scheme is administered by Target.

The terms of the AFHOS state the mortgage provider holds first charge over the property, with the HCA holding second charge for the percentage of the property they own. No interest is payable on the loan however, the scheme retained the percentage of the property they owned until it was fully redeemed or reduced and therefore the scheme is entitled to any increase in the property valuation.

The terms say that in order to reduce the loan, Mrs H and Mr M must obtain permission from the loan administrator to re-mortgage or borrow additional funds. This is to be requested by completing a form along with a payment of £65 each time further borrowing is requested.

The terms also state that Mrs H and Mr M could reduce the equity at any time during the lifetime of the mortgage but the minimum they could reduce it by at any time would be 5%.

Each time Mrs H and Mr M wanted to reduce HCA's equity stake, the property needed to be valued by a Royal Institute of Chartered Surveyors (RICS) surveyor and the valuation should be no more than three months old. If any home improvements had been made to the property, then two valuations were required. The first valuation would show the valuation of the property with the improvements made, and the second would show the value of the property if the improvements hadn't been made. The redemption valuation would be based on the valuation without the home improvements.

Mrs H and Mr M purchased their property in 2011 for £237,500 with HCA owning a 27% stake in it. Mrs H and Mr M remortgaged in July 2014 and paid off 5% of the loan so this reduced HCA's share of the property from 27% to 22%.

In May 2016, Mrs H and Mr M decided to reduce the HCA stake in their property by a further 5% by completing a remortgage. The administrator of the scheme at that point had been Metropolitan. The administrators were unable to locate Mrs H and Mr M's account. In November 2016, the administration of the loan was then transferred to Target. Mrs H and Mr M then initiated the part redemption process again with Target – instructing their intermediaries to explore a mortgage offer in order to redeem a further 5%.

Mrs H was advised at this point that as the loan had just been transferred to Target, that not all customer account details had been transferred to Target by Homes England. Target said they were not aware of what customer details they held until a customer contacted them. So Target put the onus on the customer to provide evidence that they had the loan with HCA. It was up to Mrs H and Mr M to provide this evidence to Target, so they had the account details they needed.

Target said they were unable to record any contact or correspondence sent by Mrs H and Mr M to their systems – so they were unable to keep an accurate audit trail of any contact made. Target said this was partly due to AFHOS accounts being manual and they had no formal process for manual accounts.

Mrs H and Mr M said they contacted Target multiple times by phone and email, and they said that Target didn't know anything about the AFHOS scheme. They said Target continued to give them incorrect information and the whole interaction caused them nothing but stress.

Mrs H and Mr M complained to HCA who told them to complete a valuation at a cost of £350. This valuation was £265,000 without home improvements so meant that HCA's equity stake was 22% - a value of £58,300.

By this time, Mrs H said that her financial situation had changed for the worse and so was unable to show adequate income in order to borrow the additional amount they needed to redeem the loan in full. They said they had £38,000 in savings so decided to proceed with a part redemption – but still no clear guidance was given to them on how to proceed.

Mrs H and Mr M said it got to the end of 2017 where they felt they were not further forward with their redemption and were getting no response from Target or HCA. Mrs H said this caused her health to deteriorate so she stopped the process.

Mrs H started the process again in December 2019, and by this point, Target had managed to locate a manual account for them. But the account hadn't been set up on Target's system causing Mrs H and Mr M difficulty and frustration whenever they contacted Target.

Once the account details had been identified, Mrs H initiated the full redemption process in June 2020. She said there was a one-month delay in dealing with her request at which point Target then issued a redemption quote for 27% based on the equity share information provided by Homes England.

Mrs H explained to Target that this was incorrect as they had already reduced their equity previously by 5% in 2014. But they were told that because Target didn't have any evidence of this, a request was sent to Homes England so they could confirm what the outstanding equity share was at the time.

Target said they didn't receive confirmation that the remaining equity share was 22% until November 2020 and following this, completion then took place on 16 December 2020 and the loan was fully redeemed.

Mrs H and Mr M were very unhappy with how things had been handled so they brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators.

The investigator looked into things and let Mrs H and Mr M know that we were not able to consider anything to do with the delays about the previous administrator. He said that any issues about Metropolitan would need to be directed to them.

The investigator concluded that Target had caused Mrs H and Mr M some delays which caused them a great deal of stress.

He said that Target caused delays in issuing a redemption statement and had they have given their authority sooner, Mrs H and Mr M would have been able to prove their income and secure a mortgage to redeem their loan in full. But he didn't think that those delays alone meant they would be able to obtain a mortgage in order to redeem the loan in full as he couldn't be certain that this was the case due to Mrs H's personal circumstances changing.

He also said that as Mrs H and Mr M didn't have an offer in place, it was difficult to determine any losses caused by Target's errors with regards to Mrs H and Mr M paying a higher rate of interest on the SVR.

However the investigator did think that Target should pay Mrs H and Mr M the difference between what they paid to redeem the loan in full based on the September 2020 valuation, against the one carried out in October 2017. This was based on the fact that Mrs H and Mr M had some savings which represented 14% equity and what they could have paid, so this difference across both valuations equated to £9,100. He also said that Target should refund the difference in the £200 administration fee against the £65 that should have been charged.

The investigator also thought that Target should refund the cost of the September 2020 valuation plus £95 which is how much they paid to extend it.

The investigator also acknowledged how difficult this situation had been for Mrs H and Mr M so he said that Target should pay them £1,500 for the distress and inconvenience caused.

Target accepted what the investigator said. Mrs H and Mr M said they agreed with most of what the investigator had said but they still remained unhappy about a couple of things.

They said they understood and agreed with most of what the investigator said. But the main point they thought was unfair was because they had to borrow an additional £9,100 that they should never had borrowed. So they would like Target to offer or cover the interest accrued on this additional amount.

Mrs H and Mr M also said the interest rates are now most likely to go up and they will end up paying more on the £9,100 borrowed and even with the compensation that has been awarded, they are still out of pocket.

As Mrs H and Mr M disagreed, they asked for the complaint to be reviewed by an ombudsman, so it has 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.

Firstly, I'd like to confirm that I do agree with the investigator that we cannot consider the delays caused in 2016 by the previous administrator, as Target are not responsible for this. So I will solely focus on the actions of Target – since they took over the loan.

Target took over the administration of Mrs H and Mr M's loan in November 2016. Under the loan agreement, HCA as the lender had certain duties regarding the redemption of a loan. Target, as the regulated debt administrator, was performing those duties on HCA's behalf. They were clearly the party that should have corresponded with Mrs H and Mr M in relation to their redemption request. It's evident that Target didn't perform those duties on HCA's behalf in accordance with the terms of the loan agreement. So Target were responsible for those failures and consequences that followed from November 2016.

Having looked at everything, there have been various issues throughout the years that have caused Mrs H and Mr M a considerable amount of stress and upset. It doesn't appear that Target fully understood the AFHOS scheme and they had issues in trying to locate Mrs H and Mr M due to their loan account being a manual one.

Target have told us that they don't have any contact notes for Mrs H and Mr M prior to 2019 so I have considered the detailed testimony from Mrs H and Mr M regarding the delays before this point.

Target agreed with what the investigator said and agreed to put things right for Mrs H and Mr M. So I don't think there is any dispute here that things could have been better. Mrs H and Mr M have provided several emails that they sent to Target from 2016 to 2020 about trying to redeem their loan and how difficult they found it.

Since the complaint has been passed to me to decide, I focused on what Mrs H and Mr M still remained unhappy about as I noted that Target did agree with the recommendation that the investigator made.

Target agreed to refund the September 2020 valuation fee and the additional amount of £95 that Mrs H and Mr M paid to extend it. They agreed to refund the difference in the £65 administration as noted in the terms and conditions, against the £200 that Mrs H and Mr M actually paid – adding 8% simple interest to both refunds.

Target also agreed to pay the difference in the September 2020 valuation of £330,000 against the October 2017 valuation of £265,000 – based on Mrs H and Mr M paying off 14% off the loan from their savings. This difference worked out to be £9,100. And finally, Target agreed to pay Mrs H and Mr M £1,500 for the distress and inconvenience they were caused.

Having looked at everything in detail, I agree that Target need to put things right as concluded by the investigator – and as Target agreed, I won't be going into this in any further detail.

Mrs H and Mr M still had concerns about the interest they were being charged on the £9,100. And I do understand the concerns they raised about this. They redeemed their mortgage in 2020 and ended up having to borrow an additional £9,100 than they needed because Target based the valuation on September 2020.

In these situations, where money has been borrowed, we would consider asking for interest to be added on. Usually, where money has been borrowed, it's the mortgage interest rate that would be applied. As Mrs H and Mr M borrowed an additional £9,100 than they needed to, interest would be worked out based on the mortgage interest rate they are being charged on their mortgage.

I wrote to Target and Mrs H and Mr M separately to let them know my thoughts on the matter. I explained that I thought we should be awarding interest on the amount of £9,100 because Mrs H and Mr M ended up borrowing £9,100 extra when they redeemed their loan with Target. So I thought it was unfair that they were being charged interest on this additional amount when they shouldn't have needed to borrow this additional amount in the first place. So I explained that I didn't think that interest should be awarded for the entire period from 2017 to 2020, however I did think that because Mrs H and Mr M had to borrow £9,100 more when they redeemed the loan, interest should be awarded on this amount from the date the loan was redeemed in 2020 – until the date of settlement.

Mrs H and Mr M responded to me and explained they were still concerned that they would be paying interest on the entire term of the new mortgage and still felt it was a bit unfair. I let Mrs H and Mr M know that we have already asked Target to refund £9,100 which they have agreed to. So it would be up to Mrs H and Mr M as to what they chose to do with that money. But we are asking Target to refund this amount because Mrs H and Mr M borrowed too much in the first place. So while it's up to Mrs H and Mr M to decide what to do with this refund, essentially, they can pay it off their new mortgage to bring the balance down to what it should have been in the first place. This would mean that interest wouldn't be charged for the remainder of the term of the mortgage. I explained that this is what would put Mrs H and Mr M back in the position they should have been in – had things not gone wrong. And the interest I am asking Target to refund compensates them for not having that money at the time. I said it would be unfair of me to ask Target to pay interest for the remainder of the term when Mrs H and Mr M could pay this money off the mortgage to prevent any further interest.

Mrs H and Mr M have since told us that they are already overpaying on their mortgage each month as they want to try and reduce it as much as possible before their fixed rate expires. So they said if they pay off the £9,100 in one go, as well as the additional amounts they are currently overpaying, they will go over the 10% that their lender allows them to overpay by each year. Mrs H and Mr M explained that they will be charged if they do this and feel it's unfair because of what has happened.

I considered this and thought that to keep things simple and to avoid any ongoing calculations, Target should apply 8% simple interest to the amount of £9,100 instead of the mortgage interest rate. Mrs H and Mr M already said they would be happy with this amount as it would take into account any penalties they may be charged.

I contacted Target to explain that I'd normally say it should be the mortgage interest rate that they should use to calculate the interest, but Mrs H and Mr M could end up being charged more and the early repayment charge could be more or less than the 8% so in order to keep things simple, I asked Target if they would agree to add 8% simple interest to the amount of £9,100 instead of working it out on the mortgage interest rate.

Target responded and said they would accept the 8% being added to the redress figure. Mrs H and Mr M also responded and said they would be happy with this as it would take into account anything they may be charged if they overpay.

Target said they wanted to make us aware that the redress approval for this case is pending additional investigations with the Homes and Communities agency surrounding their role in the issues faced by Mrs H and Mr M.

I appreciate that Target have said they need this redress approved by Homes England, but we're telling Target to put things right here and not Homes England. So they should continue with my direction as agreed.

My final decision

For the reasons given above, I uphold this complaint and direct Target Servicing Limited to:

- Pay the difference between the amount that Mrs H and Mr M would have needed to pay to redeem 14% of the loan based on the property value of £330,000 on the September 2020 valuation, and 14% of the property value based on the October 2017 valuation of £265,000 – which equates to £9,100. Target to add 8% simple annual interest from the date the loan was redeemed in 2020 to the date of settlement
- Target should also refund the cost of the September 2020 valuation, plus the £95 fee that Mrs H and Mr M had to pay to extend the valuation. Target should also refund the difference in the £65 administration fee stated in the terms and conditions against the £200 that Mrs H and Mr M were actually charged – adding 8% simple annual interest from the date Mrs H and Mr M paid these amounts to the date of the refunds
- Pay Mrs H and Mr M £1500 for the distress and inconvenience that Targets delays caused them

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H and Mr M to accept or reject my decision before 14 March 2023.

Maria Drury
Ombudsman