

The complaint

Mr and Mrs G are unhappy Nationwide Building Society (“Nationwide”) declined their application to port their mortgage and increase their borrowing.

What happened

Mr and Mrs G were tied into a fixed rate repayment mortgage with Nationwide, with an outstanding balance of around £224,000.

Mr and Mrs G decided to move and discussed porting their mortgage and increasing their borrowing with Nationwide on 22 February 2022. Following this, they obtained a decision in principle on 7 March 2022 which confirmed they could borrow up to £432,500.

Mr and Mrs G found a property they wished to purchase and submitted their application for an additional loan. Their application was assessed by an underwriter, and they were informed on 13 May 2022 that Nationwide was only prepared to lend them £324,990.

Nationwide explained that part of Mr G’s income could not be factored in as his second income was on a fixed term contract and the overtime was not guaranteed. Mr and Mrs G say Nationwide had previously accepted this income when it offered them their existing mortgage, so they didn’t understand why it could no longer factor the income in.

Nationwide didn’t change its position, and Mr and Mrs G say they had to obtain a new mortgage with a third-party lender on 30 June 2022. Mr and Mrs G are unhappy they lost the interest rate that they had with Nationwide and are now paying significantly more for their mortgage with the third-party lender.

Mr and Mrs G think Nationwide should compensate them for that and would like Nationwide to refund the following:

- The early repayment charge (“ERC”) of £6,095.57.
- £11,365.54 in additional interest they will pay to their third-party lender.
- £395 for the mortgage broker fee they paid to arrange their new third-party mortgage.

In addition, Mr and Mrs G would like an apology for the stress and inconvenience caused and an explanation of Nationwide’s lending criteria in relation to affordability.

Nationwide looked into Mr and Mrs G’s concerns and explained that a large portion of Mr G’s second income was made up of overtime. Because Mr G was on a fixed term contract, its lending policy said that this overtime couldn’t be taken into consideration as part of its affordability calculations. This wasn’t considered during Mr and Mrs G’s previous application as they borrowed significantly less than they required in their new application. Nationwide accepted this should have been explained to Mr and Mrs G sooner than it was, so it offered to compensate Mr and Mrs G with £250 for any distress or inconvenience caused. Nationwide didn’t agree it was responsible for the additional costs Mr and Mrs G say they incurred.

Mr and Mrs G didn't accept Nationwide's response and brought their complaint to this service. Our investigator looked into everything, but they thought Nationwide had done enough to put things right. As Mr and Mrs G remained unhappy, 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 Mrs G's complaint should be upheld and I'll explain why.

Nationwide has accepted that the decision in principle was keyed incorrectly by its adviser and Mr and Mrs G weren't responsible for this mistake in anyway.

Call notes confirm Mr G provided the details of his second income during their initial call with Nationwide on 22 February 2022. And it would appear the adviser incorrectly keyed this information as permanent work, when it should have been recorded as being on a fixed term basis. Nationwide was given enough information in this call to have told Mr and Mrs G the overtime from the fixed term job would not be factored in. This would have allowed Mr and Mrs G to make an informed decision about what to do next.

The error was compounded because the second adviser Mr and Mrs G spoke to on 21 and 22 April 2022 didn't spot the problem either. The adviser was made aware the second job was on a fixed term basis and that some of the income related to overtime, so they should have been able to inform Mr and Mrs G this income wouldn't be considered, but they didn't.

Following this, an application was submitted on 9 May 2022 and around one week later, on 17 May 2022, the second adviser informed Mr and Mrs G that they shouldn't have taken the overtime into consideration.

At this point, Mr and Mrs G were aware their application wouldn't progress as things stood and so they had to decide how they wished to proceed. Mr and Mrs G decided to approach a mortgage broker and applied for the mortgage with a third-party lender. Although I can appreciate why they did this, having found a home they wanted to purchase, it's also relevant to acknowledge Mr and Mrs G had other options available to them.

Mr and Mrs G could have chosen to remain in their existing home for the time being. Or, they could have looked for a new property within the new budget they had been given by Nationwide. Mr and Mrs G decided to proceed with the purchase of the new property through a different lender and that was their choice. So, although I empathise with their situation, and acknowledge Nationwide put them in a difficult position, I don't think that means Nationwide is responsible for the costs they incurred from the choice they made.

Mr and Mrs G say that they had already paid for a survey of the property they were purchasing and that if they hadn't proceeded they would have lost the cost of that which was £690. But they're now saying they lost out far more and have asked for compensation of £17,856.11 in total from Nationwide. The option Mr and Mrs G took was substantially more costly than it would have been if they hadn't gone ahead, so I don't think it's reasonable to expect Nationwide to pay for that.

At the time of making their decision, Mr and Mrs G were fully aware they would incur an ERC if they proceeded with a different lender. Ultimately, Mr and Mrs G broke their agreement with Nationwide when they redeemed their mortgage earlier than planned, and an ERC is chargeable in those circumstances. Mr and Mrs G would have had to pay the ERC to purchase the home they wanted whether they knew Nationwide's lending policy sooner or not.

I appreciate Mr and Mrs G say they could have secured a lower interest rate elsewhere if they had known about Nationwide's lending policy sooner. But there was never any guarantee their application would be successful, and it was their choice to proceed with a higher interest rate elsewhere, and to pay a mortgage broker to find that for them. I don't think it would be fair to ask Nationwide to pay the difference just because the decision in principle, which was never guaranteed, was keyed incorrectly. Nationwide updated Mr and Mrs G as soon as it recognised its mistake, and they had time to back out of the property purchase if they wanted to.

I understand Mr and Mrs G also complained about the underwriter's email that was forwarded to them. They told Nationwide they found it confusing, and this led to further distress. Nationwide accepts it would have been better for the adviser to have explained the reasons why their application was declined in her own words, and this was factored into the compensation offer Nationwide's already made. While I've considered the impact of this, I think the main complaint is really that Nationwide should have been able to tell Mr and Mrs G the overtime income couldn't be factored in sooner than they did, and the distress caused was more in relation to the fact the loan wasn't going to be approved with Nationwide.

Considering everything, I think Nationwide was right to compensate Mr and Mrs G for misleading them about how much more they could borrow, but I don't think that makes it responsible for the decisions Mr and Mrs G made after that point. I appreciate why Mr and Mrs G decided to proceed with a different lender rather than miss out on the property they wanted. But Mr and Mrs G still had a number of options available to them, and they decided to proceed with the purchase even though they knew it would be more costly to them. Nationwide's has offered Mr and Mrs G £250 to say sorry for giving them an unrealistic expectation and I'm satisfied that's reasonable in the circumstances of this complaint.

If Mr and Mrs G now wish to accept Nationwide's offer, they should return the attached settlement form.

My final decision

For the reasons I've explained above, my final decision is that I don't uphold Mr and Mrs G's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G and Mrs G to accept or reject my decision before 12 April 2023.

Hanna Johnson
Ombudsman