

The complaint

Mr D and Miss F complain that Santander UK Plc caused unnecessary delays in processing their mortgage application. Mr D and Miss F say that the service was unacceptable, and they had to go to another lender and are paying an extra £146 on their mortgage each month.

What happened

Mr D and Miss F were applying for a mortgage with Santander on a flat they intended buying in the spring of 2022. A valuation was carried out in early February that raised a number of queries. A mortgage offer was issued on 7 February 2022, valid until 29 July 2022. The offer was to facilitate the purchase of a property at £270,000. The loan was for £256,000 based on a term of 35 years. The initial interest rate was to be 2.64% fixed until 2 May 2024 requiring monthly payments of £936.34.

Santander raised a number of queries with Mr D and Miss F that led to a delay in the process. Santander said that there was a clause in the lease missing that required a deed of variation; then Santander raised an issue that the ground rent was doubling every ten years; then Santander wasn't happy with the service charge; then on 13 June Santander said that it was happy to proceed but on 14 June decided that it wasn't happy to proceed and was declining the mortgage because the excessive service charges made the property unsaleable in the view of its valuer. Mr D and Miss F had to look for a new property. They felt they didn't have time to use the existing mortgage offer, went to another lender and completed on a new property at the end of September.

Santander agreed that there was poor service and offered as compensation £300 for Mr D and Miss F's distress and inconvenience, £350 for their searches fee on the new property, £100 new valuation fee and £400 to cover a deed of variation.

Our investigator's view

Our investigator didn't recommend that this complaint should be upheld. He felt that Santander had reasonably concluded that it wasn't prepared to lend on this property but felt that it could have come to this conclusion earlier than it did. But our investigator felt that the compensation offered by Santander was reasonable. Mr D and Miss F disagreed saying that if Santander had acted earlier in declining the mortgage, they could have used the existing mortgage offer for another property as it was open until the end of July. But when they were told it was declined in the middle of June, it was too late for them to benefit from an amended offer. Mr D and Miss F then bought another property. The property was agreed on 20 June 2022 and completed on 30 September 2022.

My Provisional Decision

As my decision differed from that of our investigator, I issued a Provisional Decision which is set out below:

"Mr D and Miss F make, in essence, three complaints. Firstly, that their application was unfairly refused, secondly that they got confused messages about the application from

Santander and thirdly that the delay in coming to a decision meant that they lost out on an opportunity to buy another property and transfer the mortgage offer to that property. This delay meant that they lost out on the more favourable Santander interest rate.

Santander, following the valuation, had three major issues: escalating ground rent, a missing mortgage protection clause and an excessive service charge. It seems that Mr D and Miss F and their solicitors tried to fix these problems in order to buy the property. Sometimes it appears that the problems were fixed. For instance, on 25 April the Head of Lending Services writes to Mr D and Miss F solicitors telling them "We are aware and confirm that the information regarding Ground Rent has been reviewed by our underwriters. We are happy to proceed. "But on 10 May 2022 the solicitors are told that the valuer had said – "After a review of the information provided, I have concluded that the ground rent and service charge are likely to adversely affect value and saleability, so the property is not considered suitable security for the lender." In other words, Santander wasn't happy to proceed.

Then on 10 June the valuer said that "after a review of the information provided and of recent sales evidence, we remain of the view that the ground rent review pattern and service charge are likely to adversely affect value and saleability meaning that the property is not readily saleable across the market and falls outside of the Banks lending requirements." Despite that, Santander then told Mr D and Miss F's solicitors that it was happy to proceed in two separate letters in June before the broker asked for an explanation when Santander on 14 June confirmed that it was a decline.

A lender engages a valuer to assess whether a property is good security for a loan in case the lender defaults. Santander's valuer had concerns which Mr D and Miss F and their solicitors attempted to deal with. The valuer enquired about the service charge which was over £2,000 per year and concluded that would affect saleability and that's a conclusion that the valuer is entitled to make, and Santander is entitled to withdraw the offer in such circumstances. I can't fairly uphold that part of the complaint. The question is when Santander should have told Mr D and Miss F that it was withdrawing the offer and the consequences that flowed from that.

Our investigator concluded that this application could have been declined on 20 April 2022. Indeed, I see from the notes that Santander's internal investigation came to the same conclusion. At that stage the service charge was known and which the valuer considered excessive, and the valuer wasn't going to reach a different conclusion on the saleability of the property no matter what further information was received. But the application process continued, even to the extent of the solicitors for the applicants being told in June that completion could take place although this was never going to happen.

Mr D and Miss F say that if they were told in April that the mortgage had been refused, as Santander agrees should have happened, they would then have been able to transfer this mortgage offer to another property that they could have bought before the mortgage offer expired. I asked Santander if in April Mr D and Miss F had been told that Santander was declining the offer on the property, whether it was possible for them to get another offer issued on a different property but with the same interest rate. Santander confirmed that it was possible as the bank just needed to do a new valuation and produce a new offer on the new address if the value of the property and the amount of borrowing were similar.

So, Mr D and Miss F would have had about three months to source a property, have it valued and bought in order to benefit from the offer they had. Mr D and Miss F agreed a property on 20 June 2022 and completed on 30 September 2022 which is approximately the three-month time period that would have been available had the offer been withdrawn in April. I imagine Mr D and Miss F would have been fairly attractive purchasers to any seller given the position they were in. So, I consider it likely that they could have bought a property

in the period to the end of July. My view is that by not telling them that the mortgage was withdrawn until the middle of June that Santander deprived them of the opportunity to use the mortgage offer for another purchase in the time period available. So, I intend upholding this part of the complaint and accept that Santander should compensate Mr D and Miss F for denying them the opportunity to benefit from the original mortgage offer.

Mr D and Miss F mortgage offer from Santander was to assist in the purchase of a property for £270,000. The loan was for £256,000 based on a term of 35 years. The initial interest rate was to be 2.64% fixed until 2 May 2024 requiring monthly payments of £936.34. After the offer was withdrawn, Mr D and Miss F bought a new property for £282,500 on 30 September 2022.. The loan was for £262,000 for a term of 35 years. The interest rate is fixed at 3.52% until 30 September 2024.

As Mr D and Miss F completed early with their new mortgage offer, they will be able to take advantage of the full 24 months of their new mortgage product. I have to recognise that Mr D and Miss F, if they had begun house hunting again in April would have been unlikely to be able to take advantage of the full 24 months of their Santander mortgage product. I believe that it's reasonable to assume that they could have completed in the middle of July. Accepting that, they would have had the benefit of Santander's mortgage product until 2 May 2024 - a period of about 21.5 months. They were deprived of the benefit of the more favourable interest rate for that period.

So my view is that to put Mr D and Ms F in the position they would have been in if they completed with the original mortgage offer, Santander should refund them the difference – on a balance of £256,000 over 35 years which was what Santander was prepared to loan - between their repayments if the interest rate was 3.52% and the repayments if the interest rate was 2.64% over a period of 21.5 months (the period from mid-July 2022 until 2 May 2024). I expect that Santander will want to pay that, subject of course to my final decision, by making one payment. I've looked at whether any interest should be paid in addition as some of this will be compensation for payments already made and that normally would attract interest at 8%. But some of it will be for payments not yet due so, I don't believe that it's appropriate to add interest to this.

There are other issues I need to address. I believe that the confusing messages from Santander and the false hopes built up for several months and indeed up to June must have been very distressing for Mr D and Miss F and I believe that an award of £500 for their distress and inconvenience more fairly compensates them for that than the £300 offered by the bank.

I note that Santander agreed to pay £350 for new searches fees, £100 new valuation fee and £400 to cover the cost of an unnecessary deed of variation. But If Mr D and Miss F were to have used Santander's mortgage offer to buy a new property, they would have had to expend search fees anyway, so I don't see that Santander should have to pay these nor a new valuation fee. As the deed of variation was unnecessary I accept that the cost of this should be paid when Santander receives proof of that cost. As Santander has already paid £350 for the search fees. £100 for the valuation and £300 for Mr D and Miss F's distress and inconvenience it can credit those payments against any payments that it's required to make under the terms of this decision."

I issued my Provisional Decision and invited further submissions from Mr D and Miss F and from Santander before coming to my Final Decision.

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.

Mr D and Miss F said that my provisional decision was fair and asked for someone to do the maths and put a monetary figure on what was proposed. Our investigator replied that if the final decision remained the same we would ask Santander to re-work the mortgage in line with the outcome.

In its further submission, Santander said that the unsuitability of the original property meant that no reasonable lender would have lent on that property even if there were no delays. Santander says that it was declining the property not the customers and could have considered a different property on the same rate if it had been given the chance and that the change in interest rate wasn't Santander's responsibility. I thank Santander for its submission. I appreciate that it was the property that was declined, and Mr D and Miss F could, had they been given time, looked for another property and transferred the existing mortgage offer to that the property. The problem is that Santander didn't give them the time that would have been available had it acted quicker on the valuation.

It's accepted that the property should have been declined in April but in June Santander indicated presumably in error that it was about to lend on the property. Santander's failure to act decisively in April deprived Mr D and Miss F of the opportunity and in my view the likelihood of finding a new property and using the existing mortgage offer to finance it. That's what Mr D and Miss F were deprived of and what I consider they should be compensated for. So, I've looked again at my Provisional Decision, the evidence on the file and the further submissions and am satisfied that my Provisional Decision represents a fair outcome to this complaint and, on that basis I uphold this complaint. I set out below the payments that Santander are required to make as compensation but as I noted above the bank may set some payments they've already made and referred to above as credit against those payments.

Putting things right

I require Santander UK Plc to pay Mr D and Miss F:

1. £500 for their distress and inconvenience
2. The difference, on a balance of £256,000 with capital and interest repayable over a term of 35 years, between their repayments on the current interest rate they are paying of 3.52% and the repayments if the interest rate was 2.64% over a period of 21.5 months.
3. Pay Mr. D and Miss F £400 for their solicitors' costs in preparing a deed of variation on receipt of an invoice confirming this cost was incurred.

My final decision

My decision is that I uphold this complaint and require Santander UK Plc to make the payments set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D and Miss F to accept or reject my decision before 28 March 2023.

Gerard McManus
Ombudsman