

The complaint

Miss M says Santander UK Plc ("Santander") miscalculated her Decision in Principle ("DIP").

What happened

Miss M held a fixed rate repayment mortgage with Santander which she was tied into until October 2023. She approached Santander to discuss porting her mortgage and increasing her borrowing in order to purchase a new home. Santander confirmed Miss M could port her existing mortgage within 90 days of selling her existing property and she was later given a DIP which said she could borrow up to £315,000 subject to affordability checks.

Miss M says Santander told her any new application would be based on the purchase price of the property. But an estate agent then told her it would be based on the home report value. Miss M says she contacted Santander for clarification but was reassured she could borrow up to the DIP amount. Miss M says she relied on this information when she looked for a new home.

Miss M found a property she wished to purchase and put in an offer of £345,000. She thought this was affordable based on the DIP she had as well as the savings she would have from the sale of her existing home. Miss M started an application with Santander on 1 July 2022 but was told she wouldn't have enough funds. Santander said, based on the figures she had provided, it was only prepared to lend £294,416. Miss M says this forced her to apply for a mortgage with a third-party lender and she had to pay an early repayment charge ("ERC") of £4,865.24. Miss M thinks Santander should refund her in the circumstances.

Santander looked into Miss M's concerns and agreed she was given some incorrect information, but it didn't think this meant it was responsible for the ERC. It said a representative Miss M spoke to advised her that as long as the purchase price she was paying was less than the value on the DIP then everything would be fine. And that if she paid over the amount showing on the DIP then she would need to come back to Santander for a new quote. Santander confirmed this was incorrect as the amount shown on the DIP was the maximum it was prepared to lend her.

Santander said it was sorry for any confusion caused, but confirmed the funds weren't guaranteed until a full application was reviewed. Santander said Miss M's pension hadn't previously been considered, so it couldn't lend enough for her to go ahead with the purchase based on the purchase price she'd agreed. Santander apologised that Miss M wasn't given the right information initially, and it offered her £150 to say sorry for that, but it said it was her decision to proceed with another lender, so she is responsible for the ERC in those circumstances.

Miss M says Santander was already aware of her pension contributions when the first DIP was given to her, so she referred her complaint to this service. Our investigator looked into Miss M's concerns, but they didn't think Santander needed to do anything more. As Miss M 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 Miss M's complaint should be upheld, and I'll explain why.

Santander has accepted that Miss M was given incorrect information about her DIP and that this may have had an impact on her decision. But it's said this based on Miss M being incorrectly told she could potentially increase her DIP if the purchase price was higher. While this information was incorrect, as she'd already been given the maximum figure, I don't think this had much impact on Miss M's decision. I say this because Miss M wouldn't have needed to increase the amount offered if it was accurate.

The real problem is that the DIP turned out to have been higher than it should have been. I understand this was because Miss M's regular pension contribution hadn't been fully factored in and Miss M also had more debt than previously advised. So, I need to decide whether Miss M's pension should have been factored in previously, and if so, what impact this would have had on Miss M's decision.

I've listened to a call Miss M had with Santander in March 2023. During the call, the representative asked Miss M to confirm both her gross and net basic income. Miss M gave her gross income but was unable to confirm her net income. Miss M referred to pension contributions and confirmed she makes a salary sacrifice, but she didn't say what percentage of her salary was taken for this. She went on to give her exact monthly take home pay. The adviser asked her if this included all deductions and Miss M confirmed it did, so they went on to ask about other commitments. Miss M confirmed she had a car hire loan and a credit card with a balance of around £5,000 on it. Miss M said she would clear the balance the next month with her annual bonus, so this didn't need to be factored in. Based on this information, the representative advised Miss M how much she could borrow but confirmed this was subject to a full application.

I'm satisfied Miss M thought Santander was aware she was contributing to her pension. That said, the figures weren't specific so I think Miss M would have known the amount she could borrow wasn't entirely accurate. In addition, the offer Miss M made on the new property appears to have stretched her finances to the maximum, and instead of paying off her £5,000 credit card debt as previously advised, she had increased the balance by £4,000. So, even though Miss M's pension wasn't factored in when it should have been, I don't think this was the sole reason Miss M's DIP was higher than it should have been, and I don't think that's entirely Santander's fault.

Based on the above, I think Miss M should have anticipated a reduction in the amount she could borrow. And even if everything had stayed the same, Miss M was aware the DIP wasn't a final offer and that it was only an indication of what she could borrow.

On 1 July 2022, Miss M contacted Santander to confirm she'd accepted an offer on her home and had had an offer accepted on a property she wished to purchase. She said she wanted to run through some figures with someone as she was concerned the figures didn't add up in the previous conversation she'd had. So, it seems Miss M was already aware something wasn't right. The representative confirmed Miss M's finances with her. I note they said they had a different bonus figure on their records. And, this time, Miss M confirmed the salary sacrifice for her pension was 5%. Based on all of this information, the representative confirmed there was a shortfall.

Miss M said she was looking to borrow an additional £146,000 on top of her existing mortgage, but the representative confirmed this was coming up as unaffordable. Miss M said she can make it work she just wanted to know what sum Santander could lend. The representative confirmed £131,000 in addition to her existing mortgage. Miss M said the DIP said she could purchase a property for £332,427, so she wanted to know the maximum figure she could borrow. The representative confirmed £294,000 was the maximum. Miss M expressed that this was significantly lower than the DIP. And Miss M felt the DIP should have been a closer estimate.

I agree with Miss M that it's reasonable to think the DIP would be more accurate than it was. But as I've said above, Miss M knew that she'd only given very basic information about her salary sacrifice and that her unsecured debt was at least £9,000 when it was meant to be zero. Because of this, I think Miss M could have anticipated there was a greater potential for the figure to be wrong. And while I think Santander should have done more to make sure the pension contribution was reflected in the DIP, I still think there would have been a shortfall, so I think the £150 compensation Santander's already offered is a fair way to say sorry for its part in the confusion caused.

I know Miss M thinks Santander should refund the ERC as a result, but I don't think Santander is responsible for that and I'll explain why.

Miss M found out about the shortfall fairly quickly, so I think she still had time to choose how to proceed. And after finding out about the shortfall, Miss M called Santander back later the same day to confirm what the ERC would be. So, Miss M was fully aware how much she would have to pay to end her mortgage agreement with Santander early. And because of this, I think it's more likely than not, Miss M would have chosen to go to another lender to purchase the property she wanted even if Santander had given her a lower estimate in the first instance.

I say this because Miss M had other choices available to her. If Miss M wanted to avoid paying an ERC she could have chosen to remain in her existing home until her fixed rate ended – around one year later. Or, she could have looked for a different property within the new limit Santander advised her of. Instead, Miss M decided to proceed with a different lender so she could purchase the home she wanted and that was her choice. Ultimately, Miss M entered into an agreement with Santander that she was tied into up until October 2023. She was aware at the time that if she broke the agreement early, she would have to pay a charge and that's what she decided to do.

Considering everything, I think Santander could have done more to make the DIP as accurate as possible. But it was never guaranteed, and Miss M's situation had changed by the time she wanted to apply for the additional borrowing. Miss M still had choices available to her if she wanted to avoid paying the ERC, but she decided to proceed with the purchase through another lender and I don't think it would be fair to expect Santander to refund her for that. Santander has offered £150 to say sorry for its part in any confusion caused and I think this is fair in the circumstances.

If Miss M now wishes to accept the £150 compensation Santander offered, she can sign and return the attached settlement form.

My final decision

For the reasons explained above, I do not uphold Miss M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 24 April 2023.

Hanna Johnson
Ombudsman