

## **The complaint**

Mr and Mrs A complain that Target Servicing Limited caused unnecessary delays when they wanted to redeem their help to buy loan.

## **What happened**

Mr and Mrs A bought a flat in September 2016 with the assistance of the help to buy scheme.

The help to buy scheme is a government scheme in place to support home ownership. In addition to the usual mortgage from a regular lender, a borrower takes a shared equity loan funded by the government to reduce the amount of cash deposit that would be otherwise required. Mr and Mrs A's property is in England, and they took the loan out with Homes England, which was formally known as Homes and Communities Agency. They are an executive agency and non-departmental public body sponsored by the Department for Levelling Up, Housing and Communities. Homes England lends a percentage of the property purchase price to the borrower to enable them to buy a home.

Help to buy shared equity loans are interest free for the first five years. From year six onwards, interest is payable. Help to buy shared equity loans are secured by way of a second charge over the property, ranking it behind the main mortgage. This means that the loan must be repaid at the end of its term which is generally 25 years. But if the property is sold before then, it must be repaid on the sale of the property. A borrower can also elect to repay the loan at any time, even if the property is not being sold.

What the borrower must pay back is calculated by reference to the value of the property at the time they want to sell it or otherwise repay the shared equity loan. So depending on how property prices have changed in the meantime, the borrower may have to pay back more or less than the amount they originally borrowed.

Mr A contacted Target in July 2021 as he wanted to redeem the help to buy loan. Target sent him the redemption requirements along with the Customer Information Pack.

Mr A sent Target the valuation on 15 September 2021 which showed a value of £270,000 and confirmed he had sent the solicitor form and paid the necessary fees. Target explained to Mr A that the valuation had to be reviewed by Homes England as the property price had decreased.

Mr A said he chased Target on numerous occasions and that Target were asking him for documents or information he had already provided or given and were causing him delays. He was then told he needed to provide a second valuation as the first one had expired. He sent this one in September 2022 which showed an increase in value to £285,000.

He said Target also asked for an EWS1 form even though Mr and Mrs A told them one wasn't required and also provided a letter from the management company confirming that.

Target acknowledged the poor service that Mr and Mrs A had received and offered them £75 compensation. They then increased this by a further £225, making it £300. Mr and Mrs A didn't accept this. They said Target caused unnecessary delays and their mortgage interest rate has now increased so they are paying more than they would have done had they of been allowed to redeem the help to buy loan earlier.

As Mr and Mrs A disagreed, they brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators. Our investigator upheld the complaint and thought that Target should pay an additional £300 for the trouble and upset caused to Mr and Mrs A. She also said that because of the delay of around 12 months, the property value has increased so she thought Target should recognise that and compensate Mr and Mrs A for the increased redemption price.

Our investigator also said that interest had started to accrue on the loan, and she accepted that Mr and Mrs A would have always had to pay some interest, but she thought that Target should refund any interest paid from January 2022 as had Mr and Mrs A if they had been able to remortgage when they applied – it would have taken around 12 weeks for this to go through.

She also acknowledges that the rate that Mr and Mrs A were on now was much higher than it would have been 12 months ago. So she asked Target to pay the difference in the rates.

Mr and Mrs A were happy with this outcome. Mr and Mrs A also said they are in the process of remortgaging as Target have now produced a redemption figure.

Target responded and said they were working with Homes England but there were delays so they would wait for the final decision in order to settle the complaint. So the complaint 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.

Having considered everything carefully, I agree with our investigator that this complaint should be upheld. I'll explain why.

As a regulated entity in administering the loan on behalf of the lender, Target is carrying out the regulated activities of debt administration and debt collection.

Under the regulated activities, Target is performing the lender duties, and exercising the lender's rights, under the terms of the credit agreement, as well as collecting payments the lender is entitled to. In my view this means that Target must do what the lender is required to do, and only take steps the lender is entitled to take, while acting on the lender's behalf. And as a regulated firm, it has wider obligations to act fairly.

Although the lender is Homes England, they have appointed Target to act on their behalf – as using the description in the loan agreement – its "nominated agent" Mr and Mrs A were told to deal with Target at all times and Target was presented as being responsible for the management and administration of the loan agreement.

I'm satisfied that I can take these matters into account when deciding what's fair and reasonable in all the circumstances. In my view, as the appointed administrator and as a regulated entity carrying out regulated activities in their own right, Target is the appropriate firm to respond to this complaint. As a regulated entity carrying out a regulated activity, they have an obligation to act fairly and reasonably in performing the lender duties.

Under the loan terms and conditions, Mr and Mrs A are entitled to redeem the loan at any time, either by selling the property or repaying in some other way (such as from savings, or by taking further borrowing on the main mortgage).

According to the terms and conditions, a redemption request should be made to Target as the nominated agent. A valuation is then arranged by the appointment of a qualified surveyor by agreement between the parties. That valuation is binding in settling the redemption figure, and the loan should be repaid within three months (extendable to four on application) of the valuation.

Mr and Mrs A provided Target with a valuation which was carried out on 15 September 2021 and the valuation was £270,000. Target noted there had been a drop in the value of the property. They referred this to Homes England and Mr and Mrs A had three months to redeem the loan before the valuation expired.

The terms of the help to buy loan state:

*“within 14 days of service of the notice, the Borrower shall apply (at its own cost) to the Valuer (whose decision shall be final) to determine the Market Value as at the date of receipt of such application and within five working days of receipt of such determination by the Valuer, the Borrower shall Service a Valuation Notice on the Lender”.*

So Mr and Mrs A had to apply to Target as the administrator to redeem the loan and then to the valuer. Mr and Mrs A enquired about redeeming the loan in July 2021, but the administration fee and application weren't made until 13 September 2021. The valuation that Mr and Mrs A sent to Target was dated 3 September 2021 so under the terms of the loan, Mr and Mrs A didn't apply to the valuer within the 14 days of serving their notice that they wanted to redeem. So I don't think Target were unreasonable in the fact that they didn't produce the redemption statement once that valuation was sent to them.

However, there have been considerable delays with the time it's taken to get this redemption sorted for Mr and Mrs A. And Target didn't ask for another valuation until September 2022 which was one year after Mr and Mrs A made their application to redeem. I understand that Target said they had to wait for Homes England, but there was no evidence that they were chasing them to find out what was happening – instead, Mr and Mrs A kept trying to find out what was going on. I think Target could have told Mr and Mrs A why they were not accepting the first valuation much sooner than they did.

Having thought about everything that's happened, I don't think Target have treated Mr and Mrs A fairly. Mr and Mrs A wanted to redeem their loan and started this process in September 2021. Target delayed this process which has resulted in Mr and Mrs A having to pay more interest than they should have done on the loan, and also the interest rate on the mortgage they wanted to take out to redeem the help to buy loan – has also increased.

Target does acknowledge they made errors with the application and that there were delays. This part of the complaint isn't in dispute. But I now need to think about the impact these delays have had on Mr and Mrs A and how Target puts this right for them.

Mr and Mrs A applied to Target in September 2021 to redeem their loan. The valuation on the property at this time was £270,000 and interest had started to become payable on the loan too. Mr and Mrs A told us that the fixed rate on their existing mortgage had also come to an end and that the rate had moved onto the standard variable rate (SVR). And that their payments have continued to increase in line with the changes to the Bank of England base rate.

I think due to the timescales, I agree with the investigator that some of the interest on the help to buy loan would have become payable anyway. And I also agree that Mr and Mrs A would have paid some of their mortgage payments on the SVR. The interest rate on Mr and Mrs A's mortgage ended September 2021 and the interest on the loan also became payable at this time. So as they didn't make an application until then, there would have been some months of interest and higher SVR payments being made.

### **Putting things right**

The second valuation that was carried out had a higher valuation than the first one - £285,000. So the delays caused by Target have meant that Mr and Mrs A have a higher redemption figure to pay. But as I've already mentioned, Target didn't need to accept the first valuation of £270,000 because Mr and Mrs A didn't apply to the valuer within 14 days. The

final valuation that Target have used to calculate the redemption figure has been carried out around six years since Mr and Mrs A purchased the property in 2016.

There has been a delay of around 12 months since Mr and Mrs A applied to redeem their loan and this delay has taken around 20% of that six-year period. So it's fair to estimate that 20% of the increase in the property value over that time happened during the period of the delay. So Target should compensate Mr and Mrs A for the increased redemption price, which was caused by the delay, by paying them 40% - which is the percentage of the loan to value of the property when they bought it - of 20% of the increase in value since the purchase. Target should add 8% simple interest to this figure.

As mentioned, Mr and Mrs A have already started to pay interest on the help to buy loan, but they would always have had to pay some interest because they didn't apply to redeem the loan until September 2021. Remortgage applications usually take around 12 weeks to complete so I think it's fair that Target refund any interest from January 2022 - also adding 8% simple interest to that amount.

With regards to the mortgage interest rate that Mr and Mrs A were on - their fixed rate ended in September 2021. And they reverted to the SVR which would always have happened. But the delays caused by Target have meant that they remained on that SVR longer than they needed to - paying more a month which could have been avoided.

Mr and Mrs A have provided evidence of a mortgage offer from their lender which was produced in November 2022 showing that they are currently on a rate of 6.39% which is due to end February 2025.

We have received evidence from Mr and Mrs A's lender that had they in fact of been able to apply to get a mortgage in October 2021, they would have been able to secure a rate of 2.99% fixed for three years. So Mr and Mrs A have lost out financially because they were paying their mortgage on the SVR. Target will need to calculate the payments that Mr and Mrs A made on the SVR and compare this to how much they would've paid against the rate of 2.99%. Our investigator has already provided Target with a copy of the mortgage offer and the mortgage statement showing the payments made on the SVR.

As I've already mentioned, the remortgage should have completed by January 2022 as Mr and Mrs A applied to redeem their help to buy loan in September 2021 - so the calculation of the difference in the interest rate (SVR) paid by Mr and Mrs A against the 2.99% rate should be calculated from January 2022 up to the present date, and this difference should be refunded to Mr and Mrs A. So to be clear, this is against the SVR rate.

Then Target will need to calculate the difference in monthly payments that Mr and Mrs A will make under the rate of 6.39%, compared to the payments they would have made on the rate of 2.99%. This calculation will need to take into account the above refund, and the calculation should be for a period of three years as both fixed rates were for a three-year term.

I won't be recommending that 8% simple interest is added to this calculation. Some of this loss is historic (SVR against 2.99%) but the remaining loss is to take place in the future, so I don't think it's fair to add the 8% to this amount.

This has caused Mr and Mrs A a considerable amount of stress and upset and I agree that Target should increase the amount of compensation, as recommended by our investigator to £600 in total. Mr and Mrs A spent a long time trying to get this sorted out and many occasions of chasing and trying to get their redemption sorted. I think that Target needs to recognise the effect that these prolonged delays had on them.

I think this is a fair and reasonable solution in the circumstances to put Mr and Mrs A back in the position they would have otherwise of been in, had it have not been for the delays caused by Target.

## My final decision

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

- Compensate Mr and Mrs A for the increased redemption price, which was caused by the delay, by paying them 40% - which is the percentage of the loan to value of the property when they bought it – of 20% of the increase in value since the purchase. Target should add 8%\* simple interest to this figure.
- Refund any interest paid on the help to buy loan from January 2022 – adding 8%\* simple interest to this figure
- Calculate the mortgage payments that Mr and Mrs A made on the SVR and compare this to how much they would've paid against the rate of 2.99%. This should be calculated from January 2022 until the present day (or until the 6.39% rate took effect if this has now completed) and the difference should be refunded to Mr and Mrs A.
- Calculate the difference in monthly payments that Mr and Mrs A will make under the rate of 6.39%, compared to the payments they would have made on the rate of 2.99%. This calculation will need to take into account the above refund, and the calculation should be for a period of three years as both fixed rates were for a three-year term.
- Pay Mr and Mrs A £600 in total for the distress and inconvenience they have been caused. So, an additional £300 to what Target have already offered.

*\*Target may deduct income tax from the 8% interest elements of my award, as required by HMRC. But they should tell Mr and Mrs A what is has deducted so they can reclaim the tax from HMRC if they are entitled to do so.*

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A and Mrs A to accept or reject my decision before 18 July 2023.

Maria Drury  
**Ombudsman**