

## The complaint

Ms P and Mr U complain that Target Servicing Limited wouldn't let them redeem their help to buy shared equity loan.

## What happened

Ms P and Mr U bought a property with the assistance of the help to buy scheme. Under the scheme, a borrower can borrow a percentage of a property purchase price alongside their main mortgage. As a shared equity loan, the amount repayable is the same percentage of the property's value at the time of redemption. The help to buy scheme is a government scheme and the lender is a government agency, Homes England. Neither the loan nor the lender are regulated. But the lender has appointed a regulated firm, Target, to administer the loans on its behalf. In doing so, Target is carrying on regulated activities. Target is therefore responsible for answering this complaint.

Ms P and Mr U bought their property in 2015, borrowing 20% via the help to buy loan. In 2021 they decided to move abroad, repaying the loan so they could rent the property out. They notified Target of their intention to redeem in April 2021 and obtained a valuation of the property, which was submitted to Target. This valuation said the property was worth £525,000 – meaning that Ms P and Mr U would need to pay £105,000 to redeem their loan. But Target didn't confirm this or send them a redemption statement.

Ms P and Mr U repeatedly tried to contact Target to find out what was happening with their redemption request. They sent emails and called Target, but Target either didn't respond or told them their redemption request was "under review". In July 2021, Target asked the surveyor who produced the valuation to sign an additional declaration, but the surveyor wasn't willing to do that. So Target told Ms P and Mr U they'd need another valuation. Ms P and Mr U obtained a new valuation, and complained to Target in October 2021.

Target accepted it hadn't replied to their emails, and that they had to spend long periods waiting for their calls to be answered. It offered £40 compensation for the inconvenience caused. But it didn't think it had unfairly delayed their redemption request, which it said was under review. It said that their redemption request was approved in November 2021.

The second valuation said the property was worth £460,000. So Target sent Ms P and Mr U a redemption statement for £92,000 in November 2021, with a deadline for redemption of 25 February 2022.

Ms P and Mr U were unable to go ahead with the redemption at this time. They've explained this was a difficult time for them as it coincided with Ms P giving birth, and at the same time they were experiencing problems raising the finance to redeem the loan. On 16 February 2022, Ms P emailed Target asking for an extension to the deadline for redemption:

*We are aware that the deadline for doing this is 25 February. We are nearing the end of this process however it is not yet complete. It was delayed in part due to the Christmas break and the birth of our baby. You will recall from my complaint and our conversations that a large part of the time pressure in getting the valuation figure was*

*the impending birth of my baby. I knew that I would be restricted in what I could do to move this along, in at least the first month after the baby was born. We anticipate that it will take another four weeks to complete financing at our end as there has been additional questions regarding the existing cladding from our lenders.*

Target said it could extend the deadline for two weeks, but after that an updated valuation would be required.

Ms P and Mr U weren't able to go ahead at this time, and so their redemption request lapsed. In May 2022 they again asked about redemption. A further valuation was carried out, and this time the property was valued at £540,000, leading to a redemption figure of £108,000. Ms P and Mr U paid this amount in August 2022.

Our investigator said that Target ought to have allowed Ms P and Mr U to redeem their mortgage based on the first valuation, from April 2021. However, he didn't think this had caused them any loss because even if Target had issued a redemption statement and allowed the process to go ahead, he didn't think Ms P and Mr U would have been able to repay their mortgage at this time as they didn't have the finance to do so in place. He said that it was only in mid-2022 that they had a mortgage offer agreed allowing them to re-finance the help to buy loan and so any delays by Target before that didn't make any difference to the overall outcome. But he recognised that the delays and poor communication were frustrating and upsetting for Ms P and Mr U, and said Target should increase its offer of compensation to £350.

Target accepted that. But Ms P and Mr U didn't. They said their plan was to rent out the property and move abroad in early 2022. They had been advised by a mortgage broker that it would be difficult to increase their borrowing to repay the help to buy loan and also switch to a buy to let mortgage at the same time. They were advised to apply for an increased residential mortgage first, in 2021, then repay the help to buy loan and switch to a buy to let mortgage in 2022.

Ms P and Mr U say they were advised that there would be no problems obtaining the further borrowing, and they've provided an email from their broker from January 2021. They provided details of their income and expenditure, and in reply the broker said "*Looking at the detail I do not suspect any issues with securing a remortgage for yourselves at this point to complete in April*".

Ms P and Mr U said they then approached Target to obtain a redemption statement so that they could know exactly how much additional borrowing they would need to apply for.

Because Target didn't provide a redemption statement, they didn't complete the mortgage application and never received an offer. But based on the broker's advice, they're confident they would have been able to borrow enough to redeem the help to buy loan had Target let them do so.

Ms P and Mr U say that Target then changed the requirements for a valuation retrospectively and required their surveyor to complete an additional declaration before it would accept the valuation. Their surveyor wouldn't agree to that, so they had to pay for a second valuation in October 2021. They don't think that's fair, and want Target to refund this cost to them.

As no agreement could be reached, the complaint came to me for a final decision to be made. I took a slightly different view to the investigator, so I issued a provisional decision to allow the parties to comment on my thinking before I make a final decision.

### **My provisional decision**

In my provisional decision, I said:

*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's 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, it has appointed Target to act on its behalf as – using the description in the loan agreement – its “nominated agent”. Ms P and Mr U 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 these are matters I can take into account in deciding what's fair and reasonable in all the circumstances. In my view, as the appointed administrator and as the regulated entity carrying out regulated activities in its own right, Target is the appropriate firm to respond to this complaint. As a regulated entity carrying out a regulated activity, it has an obligation to act fairly and reasonably in performing the lender's duties.*

*Under the loan terms and conditions, Ms P and Mr U are entitled to redeem the loan at any time, either by selling the property or by repaying in some other way (such as from savings, or by taking further borrowing on the main mortgage). The amount required to redeem the loan is the same proportion of the property's value as originally borrowed – 20% in this case – as determined by an independent valuation.*

*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 setting the redemption figure, and the loan should be repaid within three months (extendable to four on application) of the valuation.*

*In this case, Ms P and Mr U followed the appropriate process for redeeming the loan, by notifying Target and then – at Target's request – obtaining an independent valuation of their property. They then sent the valuation to Target.*

*This ought to have entitled Ms P and Mr U to redeem their loan. They'd followed the proper process. The terms and conditions require a valuer to be appointed by agreement – but by telling Ms P and Mr U to instruct a valuer of their choice, in my view that meant Target agreed to their choice and so the chosen valuer's valuation was final and binding.*

*That means that, applying the terms and conditions, Ms P and Mr U ought to have been able to redeem their loan from April 2021. Once a valid redemption request had been made and the property valued, there's nothing in the terms and conditions that entitles the lender – or entitles Target, exercising the lender's rights and performing its duties as a regulated entity – to refuse or delay a redemption request.*

*However, Target didn't allow the redemption to proceed. It didn't issue the necessary paperwork. It simply told Ms P and Mr U that their request was “under review”. And then it told them that their valuer would need to sign a further declaration before the*

*request could be considered. As the valuer wasn't willing to do that, Ms P and Mr U felt compelled to arrange another valuation from a valuer who was willing to sign the declaration.*

*In my view this wasn't fair and reasonable in all the circumstances. I've said that under the terms and conditions, Target wasn't able to delay the redemption once a binding valuation had been produced. I've not seen anything that suggests that the first valuation wasn't valid either considering the terms and conditions, or considering the professional guidance for valuers. If Target wanted the valuation to be in a particular format, or wanted the valuer to agree to a particular declaration, or wanted to impose any other requirements, the time to do so was before the valuation was carried out not afterwards.*

*I've then gone on to think about what the consequences of this were. Having looked at the wider circumstances, I don't think Target's actions in delaying the redemption or requiring a declaration or second valuation delayed Ms P and Mr U's ability to redeem the loan.*

*I say that because Ms P and Mr U weren't selling their property. Their intention was to repay the loan by further mortgage borrowing – they planned to increase their residential mortgage first, then replace it with a buy to let mortgage and move abroad, letting the property out.*

*However, I'm not persuaded that Ms P and Mr U would have been able to do that in 2021, even if Target had issued a redemption statement promptly following the first valuation. Their property was impacted by fire safety concerns. An EWS1 had been commissioned by the building owner and the building had been rated B2 – meaning that there were substantial risks that required remediation work.*

*I'm aware from my knowledge of the mortgage market that it was very difficult if not impossible to obtain a mortgage on a B2 rated property at this time – and that would include taking additional borrowing on an existing mortgage. The market has moved on more recently, both because of changes in guidance and lender risk appetite and because individual properties are either remediated or have clear remediation plans (including funding) in place. That explains why Ms P and Mr U were eventually able to obtain a mortgage and repay their loan in 2022 – but I don't think it's likely they would have been able to in 2021.*

*Ms P and Mr U have pointed to an email from their mortgage broker advising that the broker didn't anticipate any difficulty in obtaining a mortgage. But that was in the context of looking at their finances and affordability. Affordability is only one of the things that needs to be considered – the nature of the property and the lender's appetite for using it as security (or increased security) for the lending is also crucial. So while the broker's email shows the broker believed they would satisfy affordability requirements, it's not persuasive evidence that it would have been possible for them to obtain a mortgage (or further borrowing on their existing mortgage) on a B2-rated property at this time. I think it's unlikely that Ms P and Mr U would have been able to finance the redemption of their help to buy loan much before they actually did so, in 2022, whatever Target did or didn't do.*

*For those reasons, I don't think Target's failure to accept the first valuation affected whether or not Ms P and Mr U were able to redeem their loan. I'm not persuaded they would have been able to even if it had been accepted.*

*But they didn't know that at the time. They hadn't completed an application to their*

*lender. I'm satisfied that they wanted to redeem and would at least have tried (though likely without success) to raise the finance. So when Target refused to accept the first valuation and insisted on the declaration, Ms P and Mr U commissioned a second valuation. If Target had not done that, they wouldn't have incurred that cost.*

*Had things gone right, Ms P and Mr U would have paid for the first valuation, Target would have issued a redemption statement and Ms P and Mr U would then have tried – and likely failed – to raise the finance. The first valuation would then have expired, since valuations are valid for three months only, with a maximum extension of one month. By the time they were able to raise the finance, a new valuation would have been required.*

*That means that had Target acted fairly and reasonably, Ms P and Mr U would still have paid for the first and third valuations. But they would not have needed to pay for the second. I'm therefore satisfied that Target should reimburse them for that cost. In addition, Target's failure to accept the first valuation, and its poor communication and delays, caused Ms P and Mr U unnecessary upset and inconvenience. I'm satisfied £350 is fair compensation for that.*

### **The responses to my provisional decision**

Ms P and Mr U confirmed they had no further comments to make. Target did not reply.

### **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, and having considered the responses to my provisional decision, I see no reason to change my mind about how to resolve this complaint.

### **My final decision**

For the reasons I've given, my final decision is that I uphold this complaint and direct Target Servicing Limited to:

- Reimburse Ms P and Mr U for the costs of the second valuation, adding simple annual interest of 8%\* running from the date they paid the valuer to date of refund.
- Pay Ms P and Mr U £350 compensation (including the amounts previously offered).

If payment is not made within 28 days of the date Ms P and Mr U accept this decision (if they do), simple annual interest of 8%\* running from the date of acceptance to date of payment should be added.

*\*Target may deduct income tax from the 8% interest element of my award, as required by HMRC. But it should tell Ms P and Mr U what it has deducted so they can reclaim the tax if they're entitled to do so.*

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms P and Mr U to accept or reject my decision before 7 July 2023.

Simon Pugh  
**Ombudsman**