

The complaint

Miss B and Mr C are unhappy that Nationwide Building Society down-valued the property they wanted to purchase. As a result, they were unable to port their interest rate product onto a new mortgage on that property. They found another lender, which offered them a mortgage at a lower interest rate, but had to pay an early repayment charge (ERC) on redemption of their Nationwide mortgage, which they want Nationwide to reimburse.

What happened

I will summarise the complaint in less detail than it's been presented. There are several reasons for this. First of all, the history of the matter is set out in detail in correspondence, so there is no need for me to repeat the details here. I will instead concentrate on giving the reasons for my decision. In addition, our decisions are published, so it's important I don't include any information that might lead to Miss B and Mr C being identified. So for these reasons, I will keep my summary of what happened quite brief.

Miss B and Mr C had a mortgage with Nationwide. In 2021 they wanted to move house. They found a new property to buy costing £260,000. They wanted to port their current mortgage interest rate product for about £92,000 of the purchase price and borrow an additional £88,000, giving a total of £180,000.

Nationwide commissioned a surveyor (who was not local to the area where the property was located) to carry out a desktop valuation, and he valued the property at £215,000. This meant that Miss B and Mr C couldn't have the interest rate product they'd wanted for their additional borrowing. This was because the loan-to-value ratio (LTV) was higher than if the property had been valued at the figure Miss B and Mr C thought it was worth - £260,000. They also wouldn't be able to afford the new property as they'd have insufficient equity from their sale to cover the difference in the valuation and the purchase price.

Through their mortgage broker, Miss B and Mr C appealed the valuation, providing details of comparable properties. The surveyor considered this and changed the valuation to £235,000. The surveyor also said "*we would suggest that a physical inspection is instructed and carried out*". However, this was not done, which Nationwide has accepted was an error on its part.

Because they couldn't get the mortgage they needed from Nationwide, Miss B and Mr C instead had to look for a new lender. After that lender's surveyor had carried out a physical inspection, the property was valued at £260,000. Miss B and Mr C were able to purchase the property with a mortgage of £185,000 (£5,000 more than they'd wanted to borrow from Nationwide. However, on redemption of their Nationwide mortgage they had to pay an ERC of £2,748.96.

Miss B and Mr C complained. Nationwide didn't uphold the complaint so it was brought to our service. Initially the investigator didn't think the complaint should be upheld. However, on further review, the investigator noted that Nationwide had acknowledged that it had made an error in failing to instruct a physical inspection of the property, in line with the surveyor's suggestion. As a result, Miss B and Mr C had been deprived of the opportunity to take the valuations appeal further, which might have changed the outcome.

The investigator thought Nationwide should reimburse the £65 redemption fee and the ERC, less the difference in monthly repayments on £180,000 at the Nationwide interest rate 2.04% and the new lender's interest rate 1.98%, until 31 January 2024, and taking into account the £500 cashback from the new lender. Although it appeared from its initial response that Nationwide had accepted this, Nationwide later asked for an ombudsman to review the complaint.

Nationwide has made a number of points, and I summarise the relevant points below:

- borrowers have no choice about whether a valuation is carried out physically or by a desktop valuation;
- it is not Nationwide's policy to allow appeals on desktop valuations;
- even if there'd been a physical valuation, this doesn't necessarily mean the valuation would have been higher;
- the Nationwide desktop valuation was done in August 2021 and the new lender's physical valuation in October 2021, 3 months later. There could have been a number of factors that resulted in the property increasing in price by £45,000 in those three months, because the Office of National Statistics (ONS) shows an 11.8% increase in house prices, up from 10.2% in August 2021. Therefore, the time between the two valuations makes them non-comparable.
- even though the surveyor who carried out a physical inspection of the property for the new lender valued it at £260,000, *"we don't believe it can be assumed that the valuation ... was the 'correct' one..."*;
- any concerns Miss B and Mr C have about paying the ERC will need to be raised with their broker, as he advised them to go to another lender;
- even if Nationwide had made an exception to its policy and carried out a physical valuation, there is no evidence to suggest that a higher valuation would have been obtained.

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.

In doing so, I have taken into account all the evidence, as well as relevant law and industry practice.

Valuing a property for mortgage purposes is not an exact science. Valuation involves professional judgement, but there is a 'margin of error' which the Royal Institution of Chartered Surveyors (RICS) and the courts consider acceptable – usually 10%, but at its absolute highest, 15%. It is therefore an accepted industry standard that there should be no more than a 15% margin of error.

However, in this case, the difference between the valuation and the purchase price was about 17.5%, which is outside the acceptable tolerance level for a margin of error. Given

this, I'm satisfied that the surveyor, quite reasonably, suggested a physical valuation of the property. Although Nationwide has said that it doesn't allow appeals against desktop valuations, it has also acknowledged that it could, if it wanted to, have gone outside its policy and instructed a physical valuation.

I note that Nationwide has acknowledged in its complaint notes that it made an error. After its surveyor suggested there should be a physical inspection of the property, Nationwide failed to follow this up.

Nationwide also says there is "*no evidence*" that a higher valuation would have been obtained. However, I'm satisfied that the only reason there is "*no evidence*" is because Nationwide didn't take any steps to obtain that evidence by instructing a physical valuation. Given that the margin of error was outside the accepted RICS and judicial tolerance levels, I think Nationwide's error in failing to instruct the valuer to inspect the property (an error which, I emphasise, Nationwide has acknowledged it made) deprived Miss B and Mr C of the opportunity to test whether the desktop valuation was accurate or not.

It's possible that a physical inspection might not have resulted in a valuation of £260,000 which the new lender's surveyor thought it was worth, but it's equally possible that it might. Because Nationwide failed to take the correct action and instruct a physical valuation, the opportunity was lost to obtain that evidence. That isn't the fault of Miss B and Mr C.

I don't think the small increase in the ONS house prices index between August 2021 and October 2021 can account for such a vast differential between the two valuations. So whilst I've noted what Nationwide has said about this, I'm not persuaded that it affects the outcome.

Taking everything into account, I'm satisfied that the complaint should be upheld. I'm satisfied that Nationwide's actions deprived Miss B and Mr C of the opportunity to test the desktop valuation. Nationwide has acknowledged it could have gone outside its policy to do this, but failed to do so.

In the circumstances, given Nationwide's error, Miss B and Mr C were left with no option but to go to another lender. I disagree that this was '*their choice*', as they'd been put in a position of having no choice but to redeem the mortgage. I think this was avoidable, had Nationwide followed its surveyor's suggestion and instructed a physical inspection of the property.

I'm satisfied that Nationwide's actions caused financial loss to Miss B and Mr C. I think it is more likely than not that if there had been a physical valuation, they'd have stayed with Nationwide, albeit if the valuation had not been at the full £260,000 they might have needed to choose a different interest rate product. But given the margin of error which was outside acceptable RICS tolerance levels, and based on the available evidence, I think it's more likely than not that if a physical valuation had been carried out, the property would have been valued closer, quite likely even at, to the purchase price rather than the desktop valuations.

Putting things right

I think it is fair to use the interest rate Miss C and Mr B were on for the product they wanted to port – 2.04% – as the benchmark for the calculation.

To settle this complaint, Nationwide Building Society must do the following:

- add together the ERC of £2,748.96 and the redemption fee of £65 – A;
- deduct from A the difference in the repayments on £180,000 that Miss B and Mr C would have made on their Nationwide mortgage at 2.04% and the new lender's rate of 1.98%

from 28 January 2022 (the date of redemption) until 31 January 2024 (the date the new lender's product ends) – B;

- deduct the £500 cashback Miss B and Mr C received from the new lender – C;
- pay to Miss B and Mr C the amount of $A - (B+C) = D$.

My final decision

My final decision is that I uphold this complaint. I direct Nationwide Building Society to settle the complaint as detailed above.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any correspondence about the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B and Mr C to accept or reject my decision before 2 August 2023.

Jan O'Leary
Ombudsman