

The complaint

Mr H has complained about the service he has received from HSBC UK Bank Plc when he applied to switch his residential mortgage to a buy-to-let (BTL) and take out additional borrowing.

What happened

In September 2022 Mr H said he wanted to convert his existing residential mortgage to a BTL. He said he attempted numerous times online to arrange this, but the system wouldn't allow him to continue. He said he spoke to a number of advisers on the telephone who were also encountering issues. He was told he needed to speak to a mortgage adviser, and he was told that the rate he wanted – 3.80% fixed for five years – would be held until he did this.

Eventually, Mr H was told that he wasn't able to switch his residential mortgage to a BTL one as it fell outside of HSBC's policy. Mr H argues that if he had been told of this earlier, he would have been able to secure a much lower rate with another lender.

HSBC said that Mr H already held three BTL mortgages with them and if he transferred his residential mortgage to a BTL, that would make Mr H a BTL portfolio landlord which was outside of their policy. So they were not able to do what Mr H wanted.

Mr H was unhappy with what HSBC said so he brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators. Our investigator thought that HSBC could have told Mr H sooner that he wasn't eligible to switch his residential mortgage to a BTL as it was outside of HSBC's policy. She thought that HSBC should pay Mr H £300 in recognition of this. But she wasn't persuaded that Mr H had suffered financial loss because Mr H was planning to pay the mortgage off using his own funds (which she said he has now done) and then draw down on the mortgage loan at a later stage – once he secured the mortgage with HSBC.

She said that Mr H didn't secure a new mortgage elsewhere due to the increase in interest rates but after reviewing the interest rates, she felt they were around the same level as they were when Mr H applied with HSBC – so she didn't think he had lost out because of the delay.

Mr H disagreed. He said that HSBC have caused him financial loss and even though he could have gone to another lender once HSBC declined his application, he decided not to. Mr H said it's his duty to mitigate his losses as there was no certainty that HSBC would pay him damages and if they were taken to court, he would need to prove mitigation.

Mr H said based on the Financial Ombudsman's website, he believes that £750 to £5,000 compensation should be the amount that we tell HSBC to compensate him for as this has caused him considerable stress, upset and worry.

As Mr H disagreed with the investigator, he asked for the complaint to be reviewed by an ombudsman, so it's 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 done so, I agree with the outcome that our investigator reached.

Mr H has told us that he feels it's unfair that HSBC didn't tell him at the outset that they couldn't offer him a BTL mortgage and he was only told once it got to underwriting stage. He said that he used his own funds to repay his residential mortgage as he wanted the property to be a BTL one and when he looked at getting a BTL mortgage elsewhere he wasn't able to locate a good enough deal as interest rates had already started to rise. Mr H told our investigator that he wanted to stay with HSBC as they were offering good interest rates at the time and if he had known sooner, he could have looked elsewhere.

Having listened to the telephone calls that Mr H had with HSBC, I don't think there is any doubt that he should have been told earlier that he was not eligible for another BTL mortgage because he already held three with HSBC – and any more would have been outside of their policy.

What I need to think about, is what this has meant for Mr H and if he has incurred any financial loss because of this.

Mr H contacted HSBC on 27 September 2022 to switch his residential mortgage to a BTL one and it's at this point or shortly after this that Mr H should have been told he wasn't eligible to switch his residential mortgage to a BTL.

So I need to think about what would have happened if things had gone the way they should have done. So if Mr H was told at the end of September 2022 that he wasn't able to obtain another BTL mortgage, he would never have been able to secure the interest rate of 3.80% which was fixed for five years.

I've looked at what other products would have been available to Mr H for BTL customers who had three or more rental properties to see what he could have obtained. And I'm also mindful that these rates may have increased in the period that Mr H applied to HSBC for the BTL mortgage.

Mortgage products for portfolio landlords at the time were higher than the products available to BTL customers. Mr H would have been classed as a portfolio landlord based on the number of BTL properties he held at the time and the additional one that he wanted to have – because he wanted to change his residential mortgage to a BTL one as well.

Having listened to the telephone calls Mr H had with HSBC regarding his plans to remortgage, he initially said he planned to use his own funds to repay his existing residential mortgage and then drawdown funds at a later date from a new BTL mortgage that he thought HSBC were going to offer him.

Because Mr H couldn't get another BTL mortgage with HSBC, they told him he would need to repay his existing mortgage with them when he took out a new BTL mortgage. I do understand that Mr H changed his plans after he was told by HSBC that it wouldn't be possible to do what he wanted and the BTL mortgage would need to be used to repay his existing mortgage with them. But when Mr H was told that HSBC couldn't lend to him, Mr H repaid his HSBC mortgage using his own savings which meant he didn't take out a new mortgage with any other lender – and from what I can see – still hasn't done so.

So given the actions that Mr H took after he was told he was unable to get the BTL mortgage with HSBC, I'm not persuaded that his actions would have been any different had he of been told sooner. This is also based on the fact that Mr H already said his intention was to repay his residential mortgage using his savings and then to drawdown the money from the BTL at a later stage.

However, I do agree that HSBC should have told Mr H sooner that they couldn't help him and I think the amount of £300 that has been recommended by the investigator is fair and reasonable. I appreciate that Mr H thinks the amount of compensation should be much higher but in the circumstances of this complaint, I think this amount is reasonable.

I understand that Mr H will be disappointed with my decision, but I won't be asking HSBC to pay anything further than what has been recommended.

My final decision

For the reasons given above, I uphold this complaint and direct HSBC Bank UK Plc to pay Mr H £300 for the distress and inconvenience he has been caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 21 February 2024.

Maria Drury
Ombudsman