

The complaint

Mr and Mrs M's complaint relates to an application for additional borrowing on a mortgage they hold with National Westminster Bank Plc (NatWest). They are unhappy with the amount of time it took for the application to be declined, which meant that interest rates in the market in general had increased and meant they couldn't go ahead with their plans.

Mr and Mrs M have put forward that the mistake by NatWest will mean they will pay additional tax on their rental income source and have lost the amount of capital reduction they would have paid off the additional borrowing. In addition, they want to be compensated for the distress and inconvenience the error has and will continue to cause them.

What happened

In August 2022 Mr and Mrs M had an existing residential mortgage and a separate buy-to-let (BTL) mortgage on a rental property with NatWest. They decided to borrow additional funds against the residential property. Their plan was to use this money, plus some other funds, to clear the BTL mortgage. They wanted to borrow £32,000 on a repayment basis and attach a two-year fixed interest rate product to it. The purpose of clearing the BTL mortgage was to remove Mr M from the title and so reduce the tax that would be charged on the income their rental property generated.

The NatWest mortgage application process was completed over three telephone calls. In the first a basic affordability check was completed to give Mr and Mrs M an indication of how much they would be able to borrow. This check was done based on their correct incomes and resulted in NatWest telling Mr and Mrs M that they could likely borrow around £30,000, but if they applied, it would be subject to a full affordability check.

Next a full fact-finding exercise was completed by NatWest on 22 September 2022. Unfortunately, during that process there was some confusion over what Mrs M's salary was, as the documentation provided by Mrs M at that point was unclear. NatWest told Mr and Mrs M twice what it was planning to document Mrs M's salary as, which was an incorrect figure, but they did not correct it. The amount recorded was a full-time equivalent salary, rather than Mrs M's actual part-time salary. Based on the incorrect salary, the further affordability checks were passed.

Following this appointment, Mr and Mrs M spoke to NatWest again for the advice part of the process on 12 October 2022. NatWest set out its recommendations following this, including details of the interest rate product it determined suited their needs. Following this the borrowing application was submitted for full assessment. During the final underwriting NatWest identified there might have been a mistake and asked Mrs M for an up-to-date payslip. This confirmed the mistake and Mrs M's income was corrected, which meant a new affordability check was completed and established the borrowing requested was unaffordable.

NatWest then factored in Mr M's recent pay rise and extending the term as much as possible, but the further borrowing remained unaffordable. The application was declined. Mr and Mrs M complained.

On 4 February 2023 NatWest responded to the complaint and upheld it. It acknowledged the error it made and the timescales for it to realise the error and advise Mr and Mrs M of the consequences. NatWest apologised for the mistake and paid them £500 compensation. In addition, NatWest confirmed that a hard credit check had been done, which would not have been if it had not made the mistake, and it said it would remove this from their credit files.

Mr and Mrs M weren't satisfied with NatWest's response and asked the Financial Ombudsman Service to consider their complaint.

One of our Investigators considered the complaint and upheld it in part. She said that as Mr and Mrs M had not arranged alternative borrowing, she couldn't recommend any redress for a hypothetical financial loss. However, she confirmed the correction to Mr and Mrs M's credit files was appropriate in the circumstances. In addition, she did recommend the compensation payment be increased to £750.

NatWest accepted the Investigator's conclusions. It highlighted that Mr and Mrs M would never have been able to borrow the additional funds from it. As such, if they had wanted to raise the additional funds they would have had to have re-mortgaged elsewhere, which would have involved paying an early repayment charge (ERC) on the existing mortgage. As such, it considered the £750 compensation payment was the appropriate amount to settle the complaint.

Mr and Mrs M did not accept what the Investigator had said. They were unhappy with the compensation amount, and it was decided the complaint would be passed to an Ombudsman for consideration. Mr and Mrs M explained that during the process of their application, interest rates had increased considerably and so the window of opportunity they had to reduce their indebtedness had closed. They reiterated what the error had been and that it was NatWest's fault they hadn't known earlier than they did, which had ruined their plans.

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.

NatWest has acknowledged a mistake was made when the fact-finding and affordability process was completed, which means that I don't need to decide whether NatWest did anything wrong. What I now need to decide is what needs to be done to remedy the situation.

At this stage I would confirm that where a mistake has been made on the part of a lender, we assess what position the borrowers would have been in but for the mistake. Once that has been established, we look at what, if anything, needs to be done to place the borrower in the correct position.

In this case, an initial indicative affordability check was done in August 2022. This indicated there was the likelihood Mr and Mrs M could borrow around £30,000. However, they were told they would have to go through a full affordability assessment before an application would be made. I haven't seen any evidence NatWest made a mistake at this stage.

The error occurred during the next stage of the process. If the error had not happened; Mr and Mrs M would have been told on 22 September 2022 that the new borrowing wasn't affordable and there was no point in moving forward with the process. I would highlight at this was the day before the political events that prompted interest rates to start to climb; they were changing rapidly thereafter. In addition, there were quite often considerable waits for appointments with mortgage advisers throughout the industry.

At this point Mr and Mrs M would have had the option to either leave the mortgages as they were, or they could look to borrow elsewhere.

When deciding what is likely to have happened, we will take into account what a consumer did when the mistake was rectified. In this case Mr and Mrs M didn't look for alternative borrowing and, when there was no longer an ERC payable on the BTL mortgage, they paid a lump sum off its balance. While I have noted Mr and Mrs M's comments about why they didn't look to borrow additional funds elsewhere, I am not persuaded they would have acted differently if they had been told they couldn't have had the lending earlier, as the alternatives would have involved significant expense, for example re-mortgaging would have meant an ERC being paid on the full amount of the mortgage. Furthermore, even if I were persuaded that Mr and Mrs M would have borrowed elsewhere, as they took no action to source alternative borrowing, it would be impossible to establish what loss they might have suffered.

I would also comment that while Mr and Mrs M have said they would have had less indebtedness with NatWest had the mistake not occurred, again, I am not persuaded that is the case. Had they borrowed the £32,000 they applied for, and it had been agreed, they would not have had a lower total mortgage balance, rather the balance would have been secured on their residential mortgage rather than split over the two mortgages.

NatWest has arranged to have the credit check it completed on Mr and Mrs M removed from their credit files. I consider that is reasonable, given the application should not have reached the point where the credit check would have happened.

As I am not persuaded Mr and Mrs M suffered a financial loss due to NatWest's mistake, I now need to consider their non-financial loss. It is very clear that Mr and Mrs M had their expectations raised because of the mistake made and they were extremely disappointed when it could not go ahead. Having considered everything that happened and Mr and Mrs M's comments, I think the £750 NatWest has agreed to is appropriate in the circumstances.

My final decision

My final decision is that I uphold this complaint. In full and final settlement of the complaint I require National Westminster Bank Plc to pay Mr and Mrs M an additional £250 compensation, to bring the total paid up to £750.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs M to accept or reject my decision before 15 December 2023.

Derry Baxter
Ombudsman