

The complaint

Mr B and Mrs L complain that Lloyds Bank PLC agreed to let them port Mr B's existing lending, and add Mrs L, to buy a new home, but at the last minute Lloyds said no, because of the property type. Mr B and Mrs L said Lloyds had known about that for some time.

What happened

Mr B told us he had held a mortgage with Lloyds for some time. He'd renewed the mortgage in November 2021 for 5 years. He said that in May 2022 he and Mrs B had an offer accepted on a property, and started discussing porting Mr B's existing borrowing to fund the purchase.

Mr B said he had correspondence with someone from Lloyds in July 2022, then it went quiet with little communication. Mr B said that his correspondence was going to the wrong person, but no one from Lloyds got in touch, or replied when he contacted Lloyds.

Mr B said he got Lloyds to respond eventually, and did a mortgage application in early September. He said he sent in further information, and a valuer then attended the property. Following this, Mr B and Mrs L were told that Lloyds wasn't prepared to lend on the property they wanted to buy.

Mr B and Mrs L were very unhappy with the valuation, which they said contained a number of errors. They said after the valuation was done, their offer was withdrawn only three or four weeks before they were due to exchange, and this caused an enormous amount of financial stress. They said they had to get an emergency loan and scrape together money to prevent the chain from collapsing. And Lloyds charged an early redemption fee ("ERC") when they paid off their lending. They didn't think this was fair, and they wanted Lloyds to either reinstate Mr B's previous mortgage, or to repay the ERC it charged.

Lloyds said it was sorry it had provided poor service initially, and it offered £150 to make up for that. But it said it hadn't changed its mind about offering a mortgage on the property Mr B and Mrs L wanted to buy. It said the valuer had told it the property was partly made up of a house, and partly of commercial use buildings. Lloyds said the commercial buildings would need to be separated from the Land Registry entry for the house, before it could consider offering a mortgage on this property.

Our investigator didn't think this complaint should be upheld. He said Lloyds had apologised for the poor service it offered initially, and paid £150, which he thought was fair. But he said Lloyds hadn't known Mr B and Mrs L wanted to buy a property which was partly commercial until the valuation report came back. And when Lloyds found that out, it decided this wasn't suitable security for this lending.

Our investigator didn't think Lloyds had made a mistake in relying on the valuer's report and deciding not to lend on this property. He also said that the ERC was properly charged, in line with the terms of Mr B's existing mortgage, when Mr B paid that lending off.

Mr B and Mrs L didn't agree. Mr B said he and Mrs L had always planned to separate the property into two, a commercial part and a residential part. He sent us an email he'd sent to

Lloyds on 22 September, which discussed how the plot would be divided into two, with a new separate entrance created for the commercial part of the plot. This email made clear that Mr B and Mrs L only intended to mortgage the residential part of the property.

Mr B and Mrs L said they'd told the mortgage advisor about this from the start. They said full details of the property and their plans for it were discussed during the video appointment they had on 9 September to get their mortgage application back underway. They were always planning to split the property title into two on completion, and they had since done so.

Mr B and Mrs L said if it was against Lloyds' criteria to lend on a property like this, then it could have told them that much earlier. But it only told them after the valuation, leaving them with around three weeks to source a new mortgage offer.

Our investigator didn't change his mind. Mr B and Mrs L wanted their complaint to be considered by an ombudsman, so it was passed to me for a final decision. And I then reached my provisional decision on this case.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it in part. This is what I said then:

I think Mr B and Mrs L's mortgage application initially stalled because they'd sent information to the wrong email address. I understand Mr B and Mrs L then struggled to contact anyone at Lloyds who could help them to reinstate their application, and Lloyds has accepted it provided poor service at this stage. Lloyds offered £150 to say sorry for that. I think that provides a fair and reasonable outcome to this part of Mr B and Mrs L's complaint, and I'll include that in my award in case Mr B and Mrs L didn't cash the cheque that Lloyds sent.

I'll now consider the second part of Mr B and Mrs L's complaint, that Lloyds turned down their lending shortly before they were due to exchange on their property.

I don't think Lloyds made a mistake in turning down their lending. It's entitled to rely on the advice it receives from their surveyor about whether a property is suitable security, or not. Here, the valuer was considering a property which was part residential, part commercial, and had shared access for the two different parts of the property. Lloyds was only offering a residential mortgage, so I don't think it was unfair or unreasonable for Lloyds to say it didn't want to lend on this property.

But I do think Lloyds made a mistake, because it didn't say this sooner. Mr B and Mrs L told us they'd explained their plans in great detail to the mortgage advisor, but the advisor doesn't appear to have raised any query over the fact that they were planning to split the property into two, creating a new entrance to the commercial property (which was presumably dependent on the relevant permissions being granted) and that they were only intending to mortgage the residential part of the property.

I haven't been able to see the mortgage advisor took steps to make sure that any mortgage was offered only on the residential part of the property. I think if she had taken such steps, then it's likely Lloyds would have expressed concerns about this property sooner.

But I don't think it's likely that, given more time, these concerns could have been resolved. Even if Lloyds had understood Mr B and Mrs L only wanted to mortgage part of the plot that they were buying, I don't think it could be sure their plans to create a

separate entrance would go ahead. And the property would still be directly adjacent to commercial premises. So I think it's most likely Lloyds would still have had reservations about this lending.

That means I don't think Mr B and Mrs L were ever likely to be able to port Mr B's prior lending to buy the property they wanted. And I do think that it's likely they would always have had to pay the ERC which I can see that prior lending was subject to, when they paid it off.

But if Lloyds had looked into what Mr B and Mrs L told it about the property from the outset, then I think Mr B and Mrs L would have been aware of these issues earlier, which would have allowed them more time to put alternative financing in place.

Because that didn't happen, Mr B and Mrs L didn't find out Lloyds wouldn't lend until they were very close to signing for this property, and felt they were committed to their sale and purchase. I think this must have caused Mr B and Mrs L a considerable amount of stress.

For that reason, I think Lloyds should pay a little more compensation in this case. I know Lloyds has already offered £150, but I think it should pay Mr B and Mrs L a total of £500 in compensation. I'll allow Lloyds to count towards that amount, any payment of compensation it has already made for this complaint, in case Mr B and Mrs L did cash the cheque that Lloyds sent. I think that would provide a fair and reasonable outcome to this complaint.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both sides replied.

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.

Lloyds said that having reviewed my provisional decision, it would pay the suggested compensation. It said it had sent Mr B and Mrs L a cheque for £150, so it would confirm whether this had already been cashed before making payment.

Mr B and Mrs L wrote to say some of the points in my provisional decision were incorrect. They said Lloyds was fully aware of the property and of their situation, and they'd been very transparent with the mortgage advisor, because of the short time scale they were working to.

Mr B and Mrs L said they told Lloyds that the property had commercial premises adjacent, and the advisor recommended a level one valuation, saying it was likely the valuer wouldn't attend. Mr B and Mrs L said the property did have two vehicular entrances, and the mortgage advisor knew that. She had viewed the property using online street maps, during a call with Mr B, to confirm this. And they'd supplied detailed plans of the property before the valuer attended.

Mr B and Mrs L said they agreed it didn't help that they'd made a mistake in sending through emails to the wrong address, but they then made calls to Lloyds that weren't returned. They'd first asked Lloyds to port the mortgage in May, but didn't get an appointment until the start of July. They felt that taking over a month to get a video appointment was poor service.

Mr B and Mrs L said the whole property had been valued at £500,000 in May 2022, and they thought if they'd sold off the commercial buildings section for new housing, that would have

more than covered the mortgage they wanted to port. They said they only wanted a residential mortgage on the house itself, which was valued at £325,000.

Mr B and Mrs L said they'd then obtained a structural engineers report in June 2023, and were told the house was mortgageable, although it needs renovation. But they were now having difficulties getting a mortgage, with the stricter criteria now being applied by lenders.

Mr B and Mrs L said Mr B had stayed loyal to Lloyds, and it was disappointing that this loyalty only worked one way. They were very upset with how they'd been treated by Lloyds. They said Lloyds told them all calls were recorded when the calls were made, but then hadn't been able to find them, to resolve this complaint. Mr B and Mrs L said the mortgage advisor in this case was incompetent, and they felt that Lloyds should have waived the ERC.

I do understand that Mr B and Mrs L have been very disappointed in how this mortgage porting application has been carried out. I still think that initial delays were at least partly because Mr B was unfortunately using the wrong email address for Lloyds, but I noted in my provisional decision above that Lloyds accepted it had provided some poor service at this time. I said then I thought £150 did provide a fair and reasonable outcome to this part of Mr B and Mrs L's complaint, and I still think that.

Mr B and Mrs L wanted to stress that they'd always been open and upfront with Lloyds about the sort of property they were buying, and the evidence they have shown our service previously does support what they said about only wanting a mortgage on part of the property. Unfortunately, although Mr B and Mrs L did tell their mortgage advisor this, it doesn't look as if she took any steps to make the rest of Lloyds aware of their particular situation. I think this is where things went wrong in this case.

So I have to think about what would have happened, if the mortgage advisor had made the rest of Lloyds aware of the particular circumstances of Mr B and Mrs L, and the details of the property they wanted to buy. And my provisional decision above was that if she had done so, then I think Lloyds was still always likely to have turned them down for lending.

I appreciate that Mr B and Mrs L have now shown us there were already two vehicle entrances to the property. But I still don't think Lloyds was likely to have lent on only part of a property which needed to be divided after purchase, and where the mortgaged part would remain immediately adjacent to commercial premises. What Mr B and Mrs L have now told us about the property having required a structural survey to confirm it is mortgageable, and requiring renovation, wouldn't change my view on that.

So, because Mr B had a pre-existing mortgage with Lloyds, which he would need to pay an ERC to clear, and because I don't think Lloyds was ever likely to allow Mr B to port this mortgage to his new purchase, I don't think Lloyds needs to repay the ERC it charged now.

The other part of my provisional decision was, that although I thought Lloyds as a whole would always have reached the same view on whether to lend to Mr B and Mrs L on the property they wanted to buy, if their mortgage advisor had shared the information she was given earlier, then Lloyds would have reached its lending decision much earlier. Mr B would still have needed to pay the ERC, but that would have saved Mr B and Mrs L the distress of not finding out they would need to secure alternative financing until very late in the day. That's why I asked Lloyds to increase the compensation in this case.

I'm sorry to hear that Mr B and Mrs L are now struggling to mortgage their property, with recent changes in the checks lenders apply, but I don't think that is something that Lloyds is responsible for.

For the reasons I've set out above, I haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that Lloyds Bank PLC must pay Mr B and Mrs L £500 in compensation. Lloyds Bank PLC can count towards that amount, any payment of compensation it has already made for this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs L to accept or reject my decision before 7 November 2023.

Esther Absalom-Gough

Ombudsman