DRN-4428761

The complaint

Mr and Mrs S complain about the mortgage advice given by AM Mortgages (NE) Limited and appointed representative of The Right Mortgage Limited. They said it failed to record details about their existing mortgage correctly and didn't port their mortgage. As a result they incurred an early repayment charge (ERC) and other costs,

What happened

Mr and Mrs S had an existing mortgage with lender A. They had a fixed rate of 1.81% until November 2024. An ERC applied if the mortgage was repaid before then. The mortgage was portable – so it could be transferred to another property.

In 2021, Mr and Mrs S wanted to move home. They needed to borrow an additional amount. AM Mortgages gave them mortgage advice. It recommended they should repay their existing mortgage with lender A and take out a new mortgage with lender B with a fixed rate of 1.07% until 31 August 2023. There was a product fee of £1,499.

Mr and Mrs S went ahead with the recommendation, incurring an ERC with lender A.

Mr and Mrs S complain that AM Mortgages did not record details about their existing mortgage correctly. If it had, they said it should have recommended they port their existing interest rate product to their new home. If it had done so, they would have kept the fixed rate until November 2024. They also said they would not have incurred the ERC and product fee. They said the addition of the ERC to the mortgage balance increased their loan-to-value, so it meant they missed out on cheaper rates.

The investigator did not think the complaint should be upheld.

Mr and Mrs S did not accept what the investigator said. They made a number of points, including:

- The new mortgage would have been lower had the ERC and product fee not been added. And they are now paying interest on those amounts over the term of the mortgage.

- Lender B's standard variable rate (SVR) is now 8.12% while lender A's is 8.04%. So they are worse off by over £11,000.

- If the initial assessment was correct that they'd saved around £2,600 during the initial deal, they remain over £8,000 out of pocket over the term of the mortgage.

- If they were offered the option to port their mortgage, they would have done so,

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.

I understand Mr and Mrs S's points. But there was no requirement for AM Mortgages to anticipate what would happen to interest rates in the future.

Under the relevant rules, AM Mortgages was required to:

- Take reasonable steps to gather all information likely to be relevant to giving mortgage advice.

- Recommend a mortgage that was appropriate for Mr and Mrs S's needs and circumstances.

AM Mortgages' principal firm has accepted that it did not gather sufficient information about Mr and Mrs S's existing mortgage. Where a business has not treated a consumer fairly, we look to put the consumer in the position they would have been in had they been treated fairly in the first place.

I need to decide if AM mortgages had gathered all of the information it should have – and considering what Mr and Mrs S's needs and circumstances were at the time – whether it would still have recommended the mortgage with lender B or whether it should have recommended that Mr and Mrs S should have ported their mortgage with lender A.

The suitability letter stated that the most important factor was the cheapest monthly payment and they wanted a two-year fixed rate because they wanted to make overpayments and then reduce the term of the mortgage. The monthly payment was £763.19 on a two-year fixed rate of 1.07% with a product fee of £1,499.

If Mr and Mrs S had ported their mortgage, they would have retained their fixed rate payment of £432.87. But that fixed rate applied until November 2024. That was not consistent with their objective to reduce the term of the mortgage after two years. They also would have needed to arrange a new interest rate product for the additional amount they were borrowing. I note that the additional borrowing was around twice the existing balance on the mortgage. We have evidence that the cheapest two-year fixed rate offered by lender A at the time in question was 2.2%. That was £625.79 a month. So the total monthly payment would be £1,058.66.

Over the duration of the fixed rate – assuming it ran for the full 24 months – the total cost with lender B would be £18,316.56. The total cost with lender A would be £25,407.84. So on the face of it, Mr and Mrs S saved £7,091.28.

But the product fee was £505 higher with lender B – and Mr and Mrs S would have avoided an ERC of £2,920.55. And if we include the interest applied to those amounts over the 24 months, that is another £73.31. The total additional cost with lender B was £3,498.86. That reduces the saving to £3,592.42.

So even if AM Mortgages had properly considered porting the existing borrowing rather than switching to a new lender, it was reasonable advice to switch to lender B. I say that because it was in line with Mr and Mrs S's objectives and it saved them a significant amount of money over the duration of the fixed rate.

I don't consider there was any requirement for AM Mortgages to look any further ahead than the two-year fixed rate period. Based on the information it had, Mr and Mrs S were planning to make overpayments and to reduce the term of the mortgage. So I don't see how a mortgage adviser could predict what the position of the mortgage would be at that point. It was also reasonable to consider that Mr and Mrs S would look to arrange a new concessionary interest rate product at the end of the fixed rate rather than revert to the SVR.

Of course, with hindsight, Mr and Mrs S might think they would have been better off had they stayed with lender A because they had a longer fixed rate. But that was only on the smaller part of their mortgage. The advice AM Mortgages gave them was in line with their objectives at the time and saved them money. While AM Mortgages did not consider everything it should when giving advice – I consider if it had done so it would still have recommended the mortgage with lender B. So I don't consider Mr and Mrs S have suffered a financial loss because of its mistakes.

In saying that, AM Mortgages has not done what it should have. That has caused Mr and Mrs S avoidable worry, stress and inconvenience that they've lost out and did not receive the correct advice. But it has offered £200 to reflect that. I think that is fair in the circumstances.

My final decision

My final decision is that The Right Mortgage Limited should pay Mr and Mrs S £200.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr S to accept or reject my decision before 18 April 2024.

Ken Rose
Ombudsman