DRN-4552287

The complaint

Mr and Mrs S complain that Pure Retirement Limited gave them misleading information about how it set interest rates on their lifetime mortgage.

What happened

In August 2022 Mr and Mrs S took advice from a specialist broker about releasing equity from their home. They wanted to borrow £20,000 initially and then to be able to draw further borrowing regularly in subsequent years.

The broker recommended a mortgage with Pure Retirement which Mr and Mrs S went on to take out – a lifetime mortgage with a drawdown facility. This mortgage completed in November 2022. Mr and Mrs S borrowed £20,000 at a fixed interest rate of 5.65%, and there was a reserve facility of just over £250,000 which they could apply to draw on.

In April 2023 Mr and Mrs S asked Pure Retirement about making a further drawdown. it quoted them a fixed interest rate of 8.87%. Mr and Mrs S weren't happy with that, and said it was far higher than rates on offer with other lenders at the time. They queried it, and Pure Retirement said the rate was set by its funders. Mr and Mrs S said this hadn't been mentioned to them when they agreed to the mortgage, either in their discussions with the broker or in the mortgage documents. They said they would never have taken this mortgage out had they known that an unknown entity rather than their lender would be setting the interest rates.

Mr and Mrs S made a complaint to both Pure Retirement and the broker. They also decided to repay their existing lifetime mortgage and take a new equity release mortgage with another lender. On repaying the lifetime mortgage, they paid an early repayment charge. They thought they should receive a refund of that charge, as well as of the advice and legal fees they had paid for the mortgage in 2022.

Pure Retirement said that while its funders set its interest rates, those rates were and continue to be competitive and are based on market conditions. It said the 8.87% rate it had quoted reflected interest rates across the industry in April 2023, and Mr and Mrs S's mortgage documents were clear that rates could go up or down.

Our Investigator said that Pure Retirement hadn't done anything wrong and its business model wasn't unusual. He didn't recommend that Mr and Mrs S's complaint should be upheld.

Mr and Mrs S asked for an Ombudsman's review. They said neither the broker nor Pure Retirement had told them that the lender doesn't control the interest rates it charges, and they still felt that they had been misled.

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.

Not all lenders lend their own funds, and it's common in the lifetime mortgage market for funders to provide the money to be lent out to borrowers. Funders will allocate interest rates to different pools of funds. There's nothing in the rules of mortgage regulation to say that this is inappropriate or that it isn't allowed.

Mr and Mrs S have said they understood that future drawdowns would be subject to different interest rates. But they were concerned to find out when they applied for the second drawdown in 2023 that external funders would be involved in setting those interest rates – they had understood that their lender would decide the rates.

I wouldn't expect Pure Retirement to have set out its funding model in detail in the mortgage documents. I've looked carefully at the documents that were provided to Mr and Mrs S to see whether I consider them to have been misleading.

The key facts illustration and the mortgage offer both said, at section 5:

> Your mortgage includes a cash facility as discussed with your adviser and shown in section 4 above. You can apply to us directly to exercise the drawdown facility up to the amount of the overall cash facility without further financial advice. This borrowing is not guaranteed and will be based on the terms available from Pure Retirement (or the Funder of these particular mortgages) at the time.

And:

> Any such further borrowing will be based on the interest rate available from Pure Retirement at the time of application. Charges may be applicable to further draw downs, as described in the Tariff of Charges.

The illustration and offer also said:

> **Interest Rate**
> The interest rate is fixed for life at 5.65%, on the initial advance. Each time the drawdown facility is exercised, the interest rate applicable to that drawdown is the Pure Retirement Limited fixed rate being charged at the time, but only on the extra amount borrowed.

I'm satisfied that the information provided wasn't misleading. It was clear that the interest rate on each drawdown would be dependent on the available Pure Retirement fixed rate at that particular time, and Mr and Mrs S have confirmed that they understood that. It also said that the funder may be involved in setting the terms – so the involvement of funders wasn't hidden.

While Mr and Mrs S considered the rate they were quoted when they wanted a second drawdown uncompetitive, I don't think they would necessarily have found themselves in a better position had they taken a lifetime mortgage with a different lender from the start. Interest rates vary on a daily basis and between lenders and are dependent on market conditions amongst other things. There was never any guarantee about the interest rates that would be available on later tranches of borrowing, and Mr and Mrs S knew that at the outset.

Mr and Mrs S knew the costs of repaying their lifetime mortgage when they did and, for the reasons I've explained, I don't find that I can fairly require Pure Retirement to refund those costs or otherwise compensate them.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 27 June 2024.

Janet Millington
Ombudsman