DRN-4552289

The complaint

Mr and Mrs S complain that Age Partnership Limited (AP) gave them poor advice to take out a lifetime mortgage. They say it failed to explain to them that the interest rate on future drawdowns would be set by the lender's funders and not the lender.

What happened

In August 2022 Mr and Mrs S took advice from AP 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.

Mr and Mrs S couldn't go ahead with AP's initial recommendation, because the lender it had recommended wasn't prepared to lend against their property. AP then recommended a mortgage which they 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 their lender about making a further drawdown. The lender 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 the lender said the rate was set by the lender's funders. Mr and Mrs S said this hadn't been mentioned to them when they agreed to the mortgage, either in their discussions with AP 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 AP and the lender. 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.

AP said it had made the terms of the mortgage clear, including that the interest rate applicable to future drawdowns would be different to the initial fixed rate and could be set by the funder rather than the lender. It considered its recommendation had been suitable.

Our Investigator said that AP had given Mr and Mrs S enough information about how the mortgage and the interest rates on it worked, and he didn't recommend that their complaint should be upheld.

Mr and Mrs S asked for an Ombudsman's review. They said neither AP nor the lender 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 lenders 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.

In recommending a suitable mortgage to Mr and Mrs S, I wouldn't necessarily expect AP to have gone into detail about exactly how interest rates on future drawdowns would be set – unless asked. I've looked carefully at the advice it gave and the information and recommendation it provided to Mr and Mrs S, and I don't consider that it did anything wrong. It recommended a suitable mortgage which met their needs. It also explained to them that while the interest rate on each tranche of borrowing would be fixed, the rate on each tranche would be set at the time of drawdown.

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 [the lender] (or the Funder of these particular mortgages) at the time.

And:

> Any such further borrowing will be based on the interest rate available from [the lender] 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 AP provided Mr and Mrs S with enough information to enable them to make an informed decision about whether to take out the mortgage. 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.

AP recommended a lifetime mortgage with a reserve facility so that Mr and Mrs S wouldn't incur interest on a larger amount of borrowing than they initially wanted until they wanted to borrow more. It made this clear in the recommendation documents it sent to Mr and Mrs S in September 2022. It also made clear that it recommended the mortgage with the lender in question because it offered the lowest available interest rate at the time. I think its recommendation was suitable.

Mr and Mrs S have also said that AP should have helped them move to another lender if their existing lender's interest rates weren't competitive, but it failed to do that. Mr and Mrs S took advice from a different advice firm instead. While it's clear that they weren't happy with the rate the lender quoted them, that's not the same as saying it was uncompetitive at that particular time – and I find nothing to suggest that AP wouldn't have offered Mr and Mrs S further advice had they asked it to do so.

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 AP to pay 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