DRN-4711819

The complaint

Mr A complains that mortgage advice he received in 2021 from a broker working for Openwork Limited was unsuitable for him, because it recommended a two year fixed interest rate rather than a five year fix. Mr A says he will suffer financially because of this now.

Mr A is supported in this complaint by a representative.

What happened

Mr A's representative said Mr A was an inexperienced first time buyer in 2021, and he relied upon the expertise of the Openwork mortgage broker. Mr A said the broker did not at any point recommend or advise he take out a five year fixed rate. Mr A said he was always under the impression that a two year fix would be the best option in his circumstances because it would offer him the ability to switch to a better rate after the two years expired.

Mr A's representative said Openwork must have recognised that a rise in interest rates was unavoidable as inflation began to rise. Mr A now believes that he will suffer financially as a result of taking Openwork's advice. He wanted to be put in the position he'd be in now, if he'd taken a five year fixed rate back in 2021.

Openwork didn't think it had done anything wrong. It said its broker reported having gone through the options for both a two and five year fixed rate mortgage, and also discussed the effects of reducing Mr A's loan to value ("LTV") from the initial 90% to 85% and 75%. And Openwork said Mr A decided to proceed with a two year fixed rate deal, where he could make very sizeable overpayments each month.

Mr A received a suitability report in the second half of 2021, and completed his purchase in the first half of 2022. Openwork didn't think it had made any errors, or provided a service that was not to the standard that it would usually expect. In particular, Openwork said it wouldn't expect its advisors to speculate about the direction of future interest rates and thus whether it is preferable to fix for a shorter or longer term.

Our investigator didn't think this complaint should be upheld. He said Mr A had been sent a suitability report, which detailed his circumstances, including a deposit of 10% but the capacity to make very significant overpayments. And it also detailed the recommendation of a two year fix, along with the reasons for that recommendation. Emails subsequent to this confirmed that the broker recommended a two year fixed deal at 90% LTV as Mr A would then be able to access cheaper rates in two years' time by being at a lower LTV. Mr A's planned overpayments would bring him below 75% LTV within this period.

Our investigator said the relevant test here was whether the recommendation made was broadly in line with Mr A's requirements. And here, he thought enough information through advice and documentation was provided to Mr A to make an informed decision as to the length of any fixed rate product. The correspondence clearly explained the length of the product and the reasons why it was recommended. Making overpayments and reducing the LTV would in theory lower the interest rates available to Mr A. So our investigator didn't think it was unreasonable for the broker to take into account that Mr A's plans to reduce the capital, could lead to more preferential products at the end of the initial two year period. And our investigator wasn't persuaded the broker could have known, in 2021, that interest rates would increase generally in the following years.

Our investigator accepted that, with the benefit of hindsight, Mr A may have been better off with a five year fixed rate, but he didn't think the advice he received in 2021 from Openwork was unsuitable. So he didn't think Openwork had to compensate Mr A for this advice now.

Mr A's representative replied to disagree. They said that the broker was supposed to consider whether it was appropriate to have stability in future payments, especially considering the impact significant future interest changes could have. But the broker didn't use such cautionary wording in their advice, they simply recommended a two year fixed deal on the basis Mr A would be able to access cheaper rates in two years' time by being at a lower LTV. Mr A's representative said that if the broker could not have known what would happen to the interest rates, they should not have made such definitive statements.

Mr A's representative said Mr A had relied on this advice. Mr A's representative also said that the broker could not be certain of the level of any overpayment that Mr A might make. Mr A's representative said Mr A had confirmed that a five year fixed rate was only discussed once, on a video call in June 2021, when Mr A said that was what he wanted, and was told the rate was higher. Mr A's representative said it hadn't seen evidence that a five year fix was properly considered, why it was discounted or what if any consideration was given to any potential change to the interest rate environment and the impact that could have.

Our investigator didn't change his mind. He said Mr A was provided with a suitability report and this confirmed his goals, his requirements and the recommendation. That recommendation is usually refined after discussions with a client, and where a two year rate was recommended, our investigator said he wouldn't expect the recommendation to include information about five year rates.

Our investigator understood Mr A's representative didn't think the broker should have used such definitive wording, but our investigator said it was true to say Mr A would have had access to the lower end of available rates in two years if he was able to lower his LTV quickly. And the documentation sent to Mr A did repeatedly mention Mr A's planned overpayments. Our investigator still thought the recommendation made was broadly in line with Mr A's requirements at the time.

Because no agreement was reached, this case then came to me for a final decision.

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've reached the same overall conclusion on this complaint as our investigator.

I understand Mr A's representative argues that the advice given to Mr A was in terms which were simply too strong, because the representative argues Mr A was told he would be able to access rates which were lower after a couple of years, as a result of his lower LTV.

But what Mr A wants here, is for Openwork to pay the difference between the monthly payments he will make now, and the fixed rate he could have secured for five years, in late 2021. For that to be a fair and reasonable outcome to this complaint, I would have to be able to say that it is more likely that Mr A would have taken an entirely different decision, if he had received different advice. And I have to be able to see that this is the decision he would have made at the time, without the benefit of hindsight.

In support of his case, Mr A's representative has argued that Openwork must have anticipated interest rate rises in late 2021. However, I wouldn't expect Openwork's broker to have provided predictions of future interest rate levels, which is what Mr A's representative appears to me to be suggesting ought to have been done.

Mr A's representative also said the broker should have considered the possible impact of future rate rises on a customer. But I think it's clear Mr A had a considerable amount of additional disposable income, as his capacity to overpay each month was limited not by available funds, but by the 10% overpayment allowance on his new mortgage. So I think the broker could reasonably have expected Mr A would not be likely to find himself in financial difficulties if rates changed. If Mr A's circumstances have changed since, and he is finding it more difficult to manage his repayments, I don't think that would be the broker's fault.

I also note that at the time the mortgage recommendation was made, the LTV of a mortgage was a much more significant factor in deciding the applicable interest rate than it is now. At the time, the best available rates for an LTV of 75% were somewhere between a quarter to half of the best rates available with an LTV of 90%.

So it seems to me Mr A's representative is suggesting the broker ought to have predicted for Mr A both that interest rates would rise quite significantly for a sustained period, and also that the LTV would cease to have such a significant impact on the rate charged for lending.

I appreciate that, with the benefit of hindsight, Mr A may well have been better off choosing a five year fixed rate in 2021. I also understand that it may be possible to identify factors now which may have indicated both of the changes I've referred to above, but I just don't think it's fair and reasonable to expect that sort of prediction from the broker in 2021. I think this goes well beyond the boundaries of an appropriate role for the broker.

I've considered the documentation that Mr A and Openwork have supplied, and it does appear as if Openwork has considered Mr A's circumstances. I also think it then provided a recommendation which did broadly fit with his needs. I don't think Mr A was given mortgage advice which was unsuitable for him. And I cannot see that Mr A raised any concerns about the advice given to him at the time, or its suitability for him.

For the reasons set out above, I don't think that this complaint should be upheld.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 10 July 2024.
Esther Absalom-Gough
Ombudsman