DRN-4722326

The complaint

Miss A and Mr W complain that Bank of Scotland Plc trading as Halifax used the lower of the purchase price or valuation to decide how much to lend to them. As a result, they said the loan-to-value (LTV) of their mortgage went up, meaning that Halifax was only prepared to offer a more expensive interest rate product.

What happened

In March 2023, Miss A and Mr W successfully applied for a mortgage with Halifax. They initially wanted to borrow £442,500 against a purchase price of £590,000 – so the loan-to-value was 75%. Between November 2023 and January 2024 Halifax issued a number of offers. Part of the mortgage was on an existing fixed rate. The new borrowing had a fixed rate, the lowest was in January 2024 for 4.39%.

Miss A and Mr W went on to negotiate a reduced purchase price as the property needed some repairs. That brought the LTV to over 75% as Halifax used the lower of the valuation or purchase price to calculate the LTV . Halifax issued a new offer. But because the LTV was now over 75%, Miss A and Mr W were no longer eligible for the interest rate product they'd chosen – the new rate was 4.43%.

Miss A and Mr W complain that Halifax is charging them more without any increased risk to it. They said none of the information Halifax gave them set out that the LTV would be based on the lower of the purchase price or valuation. They want it to honour the lower interest rate.

The investigator did not consider the complaint should be upheld. Miss A and Mr W did not accept what the investigator said.

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.

It is reasonable for mortgage lenders to base the interest rate they charge on the LTV. That reflects there is greater risk to the lender the higher the amount lent compared to the value of the property.

In my experience it is not unusual for mortgage lenders to use the lower of the purchase price or valuation to calculate the LTV – it is not out of line with good industry practice. Halifax has explained that it made that decision to keep its risk to a minimum. That is a legitimate decision for it to take and I don't consider it is unfair or unreasonable.

There might be certain circumstances where a lender uses the valuation rather than the purchase price. But the examples Miss A and Mr W have given do not apply to them. And I am satisfied that Halifax is applying its policy as it would to any other borrower in the same circumstances as them.

I don't consider there is an obligation for Halifax to tell borrowers upfront about every aspect of its lending policy. And I can't see any reason in the circumstances here why Halifax ought to have done so. So I can't see any error by Halifax in not telling Miss A and Mr W about its lending policy.

I would add that Miss A and Mr W saved £8,500 by negotiating a reduced purchase price. The mortgage payments went up by just over £8 a month because of the change in interest rate. The additional amount they will pay because of the increased interest rate over five years is under £500. The savings in purchase price outweigh the additional costs over the term of the interest rate product.

I could see how Miss A and Mr W might have gone ahead anyway had they known the reduction in purchase price would affect the LTV and the product they were eligible for. Alalthough I understand why they were disappointed the interest rate Halifax was prepared to offer went up.

In all the circumstances, I don't consider Halifax has acted unfairly or unreasonably.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A and Mr W to accept or reject my decision before 19 July 2024.

Ken Rose
Ombudsman