

The complaint

M, a limited company, complains about the way Social Money Limited trading as SOMO handled its application for a bridging loan, which they ultimately declined.

The complaint is brought by Mrs A, as the director of M.

What happened

In March 2023 M applied to SOMO for a bridging loan of £297,000. The funds were intended to purchase a new buy-to-let property, with a charge registered on both the buy-to-let property and as a second charge on Mrs A's residential property. An offer of loan was produced subject to valuation and underwriting, and M paid SOMO a valuation fee of £1,048 and a 'lock in' fee of £350 to proceed with a full application.

In July 2023, following valuations of the properties and underwriting checks, SOMO sent M an updated offer of loan for £249,000. They explained they couldn't lend the original amount requested as the valuation for Mrs A's residential property had come in lower than M had stated in the application, and Mrs A's outstanding first charge mortgage amount was higher than M had stated at application. SOMO said they could only lend up to 70% of the total loan-to-value of the properties (LTV), and so were only able to lend £249,000.

Mrs A complained on behalf of M. She said that the questions on the initial application were not clear. She had assumed the first charge amount was to be the amount she was borrowing to be secured on the new property, not her existing first charge mortgage. She also complained about the delays in SOMO's communication and the fact they hadn't responded to her. She said those delays hindered her ability to make informed choices and consider alternative options. She said she'd paid around £10,000 in total which included fees and solicitors' costs. She asked SOMO to reconsider the application.

SOMO responded and explained that they couldn't lend M the amount it wanted as they only lend up to a maximum of 70% LTV. As the valuation came back lower than originally stated, and the first charge balance was higher than stated, they had to reduce the amount they could offer. They also said that an assessment of Mrs A's income and expenditure did not show that the higher loan amount was affordable. SOMO said their underwriting process included completing checks, requesting information, instructing a valuation and solicitors. Underwriting is only completed once they have all the information, including the valuation and Report on Title from the solicitors. The offer said it was subject to valuation and underwriting, and on this occasion, the outcome of the valuation and the underwriting meant the offer had to change. As a responsible lender, they could not offer M the amount it was looking for.

Mrs A brought M's complaint to our service. SOMO initially objected to us looking into the complaint as they said it didn't involve a regulated activity. Our investigator considered what SOMO had said but explained that he was satisfied our service did have the power to consider M's complaint. Whilst the lending did not go ahead, the complaint was about an application for lending that was to be secured by a charge on land. That's an activity that is covered by our service's jurisdiction.

The investigator went on to consider the merits of M's complaint. Having done so, he explained that he didn't think SOMO had treated M unfairly. Mrs A disagreed, so the complaint was passed to me to issue a decision.

My provisional decisions

I've issued two provisional decisions on this complaint. Initially I said the following:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Our jurisdiction to consider this complaint

Whilst I appreciate SOMO has now accepted our service has the power to look into M's complaint, I've nonetheless considered this before turning to the merits, and I agree with our investigator that this complaint falls within our jurisdiction. Whilst the loan M was applying for may not have been a regulated loan, that doesn't mean a complaint about the application isn't covered by our service.

The rules set out in DISP (the Dispute Resolution Rules) say that our service can consider a complaint if it is about a firm that is covered by our compulsory jurisdiction and is about a regulated activity, or any other activity specified in DISP 2.3.1, or any ancillary activities carried on by the firm in connection with them (among other things). SOMO was covered by our compulsory jurisdiction at the time it considered M's application, and it assessed an application for lending that was to be secured by a charge on land – both Mrs A's residential property and the new buy-to-let property she was purchasing. Lending money secured by a charge on land is an activity specified in DISP 2.3.1. Whilst the lending did not ultimately go ahead, SOMO considered an application for the lending. This complaint is about SOMO's omission to lend.

For completeness, I also consider M is an eligible complainant for the purposes of our rules, and has brought the complaint within the relevant time limits. As such, I'm satisfied our service has the power to consider this complaint.

SOMO's handling of the application

As a result of the proposed LTV of the borrowing M wanted, it didn't meet SOMO's lending criteria. SOMO are entitled to decide what level of risk they're willing to take when lending money to borrowers, and I think it's reasonable they applied their criteria to M's application. As a result, I don't think it was unreasonable of SOMO to decline M's application, and offer a lower amount instead so that the lending met their criteria.

Mrs A is unhappy because she paid fees to SOMO on the basis that she was given an offer to lend in March 2023. She's lost that money as the fees were non-refundable and the lending never went ahead. I'm satisfied that the offer SOMO sent to Mrs A made it clear that it was subject to valuation and underwriting. It also clearly set out the fees that M would need to pay to proceed with a full application, and that those fees were non-refundable should the lending not complete. As a result, when Mrs A paid the fees, she ought to have

known there was a risk the application would not progress to completion, and in that event, she would lose that money. As I'm satisfied SOMO made this information clear to Mrs A, and they weren't acting unfairly in declining M's application, I don't think it would be reasonable to expect SOMO to refund those fees.

However, M submitted this application in March. SOMO didn't decline it until July. So I've thought about whether there were any avoidable delays that have impacted M. I think there were.

There's a dispute about what information Mrs A gave SOMO during the initial stages of this application. Mrs A says she gave SOMO the correct information about her outstanding first charge mortgage balance from the beginning (around £296,000). SOMO's records show that this amount was recorded as £270,000. The information was taken during a phone call, which SOMO haven't been able to provide a copy of.

However, the loan offer was sent to Mrs A following the call. That document stated that the first charge balance was £270,000. Mrs A signed that offer to confirm she accepted it and wished to proceed. I'm satisfied that Mrs A ought to have realised when she reviewed and signed that document that the information about her existing first charge was wrong – and it was her responsibility to bring that to SOMO's attention. Mrs A has said that the information on the offer wasn't clear. She thought the amount related to the new first charge SOMO were going to have on the buy-to-let property. But I disagree and think it was sufficiently clear. In any event, £270,000 wouldn't have been an accurate figure for the new first charge on the buy-to-let property as she was applying to borrow £297,000.

SOMO proceeded to consider M's application based on the incorrect figure for Mrs A's existing first charge. This was important as they had strict criteria about LTV. SOMO have said that they only begin their underwriting process when they have received all the information they need – and that includes information from solicitors about Reports on Title. That wasn't received until July, and so that's when they considered the application – and realised it didn't meet their criteria.

Whilst I appreciate SOMO may have followed their own internal processes and procedures when considering M's application, on this occasion I've found that's resulted in unfair treatment. I say that because SOMO had all the information they needed by the end of March to realise M's application did not meet their criteria. That's when they received information from Mrs A's first charge lender about the existing mortgage balance, and consent to register a second charge on the property. SOMO had also received the valuation reports for both properties by then too. But instead of reviewing M's application at that point – they proceeded to conduct solicitor checks and searches which took a further three months.

The reason SOMO declined M's application was not a complex one. The only information they needed to make that decision was the total value of the security, and the proposed total value of the borrowing. They had that information by the end of March. And I'm not persuaded that could only have been discovered during a full underwriter review. Mrs A had been in regular contact with SOMO's case manager throughout this application – and he was collating all the information required for the underwriting process. I'm persuaded the case manager ought reasonably to have noticed that the details of the existing borrowing and valuations did not match the information initially submitted in the application, and flagged that as a potential problem at the time. Particularly as SOMO have been very clear that their criteria must be applied strictly and consistently to ensure they're lending responsibly.

I note SOMO have also made reference to issues with Mrs A's income and expenditure, but

that seems to only have affected the basis on which they were willing to lend the funds to M – rather than the amount they were willing to lend. So, from the information I've seen, I'm satisfied SOMO had sufficient information to make their lending decision by early April at the latest (as the relevant documents were received on 31 March). However, M was not informed of that decision until mid-July. SOMO's delays in communicating their decision with Mrs A has resulted in avoidable financial loss, and inconvenience for M. Overall I'm not persuaded SOMO acted fairly and reasonably in the way it handled M's application and the time it took.

Putting things right

I've explained that it wouldn't be fair for SOMO to refund the fees Mrs A paid during this application process. As notwithstanding the avoidable delays those fees would never have been refunded.

It's not clear what M did when this application was declined, whether the purchase went ahead using borrowing from a different lender, or whether it was abandoned altogether. In response to my provisional decision M should provide details and evidence of any additional costs or losses it experienced as a result of SOMO's delays. I will then consider whether it's reasonable to expect SOMO to pay for any of them.

As SOMO didn't decline M's application until solicitor's searches were complete, I'm persuaded M would likely have incurred avoidable solicitors' costs in relation to that work. M should provide evidence of those where relevant. That is unless M went ahead with the purchase using other means, in which case it's likely that at least some of that legal work could have been used for that purchase.

In addition to direct financial losses, I'm satisfied M was inconvenienced by SOMO's delays. M delayed business decisions it had to take regarding the lending and the property purchase, and M had to provide a lot of information to solicitors which I think it's likely could have been avoided. As a result, I'm persuaded SOMO should pay M £300 for the inconvenience caused by their delays."

Mrs A said that after SOMO told her she couldn't borrow the amount she needed for the purchase, the purchase was abandoned. She sent information about the costs she'd incurred that she felt SOMO should be liable to pay. Those costs were for legal work completed in relation to the application and an additional survey.

SOMO explained that whilst M's application didn't meet their 70% LTV policy, they did have other products available which would utilise alternative funding lines which would have allowed them to lend up to 75% LTV. They said in continuing with the legal work, they were exploring whether they could secure the funds M needed using those funding lines. They said that couldn't be determined until they had received the Report on Title – which showed there was an extension that had been built without the planning available. The 75% LTV products weren't available on properties with planning issues. They said the Report on Title was received on 10 July 2023.

SOMO said they were diligent in exploring all alternative solutions for M and the additional work was appropriate in attempting to ensure the best outcome for M and Mrs A.

After considering the responses sent in by both parties, I issued another provisional decision which said the following.

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having considered the new information provided by the parties, I no longer think this complaint should be upheld. I appreciate this will come as a disappointment to Mrs A, so I will explain my reasons below.

In my last provisional decision, I explained that I was satisfied SOMO had sufficient information to determine that M's application didn't meet their lending criteria by the end of March 2023, but delayed informing Mrs A of that fact until July. However, SOMO have now provided evidence that there were other products that they could have made available to M, had the rest of the application met the relevant criteria. SOMO have shown that they could potentially have lent the funds required for M's purchase if it wasn't for the planning issues identified by the Report on Title – which wasn't received by SOMO until July 2023.

Considering all the evidence, I'm not persuaded it was unreasonable of SOMO to explore the options that may have been available in order to lend M the amount it needed to complete the property purchase. As such – I don't think the legal costs that M incurred were done so unnecessarily. As it's now become apparent that the loan could have completed if it wasn't for the planning issues identified later in the process.

It's disappointing that SOMO did not provide this information earlier. But now that I've been able to review all the relevant information, I'm no longer persuaded this complaint should be upheld.

I'm aware of the significant costs that M incurred during this application process and appreciate Mrs A providing details of those. But as I explained in my previous decision, those costs were incurred in the knowledge that the application may not ultimately be successful – as was made clear by SOMO in the offer of loan. Having reviewed the timeline of events, I'm not persuaded SOMO caused any avoidable delays or unnecessary work during the process. And so I don't think M was treated unfairly."

SOMO haven't responded to my second provisional decision.

Mrs A provided a detailed response, which said in summary:

- SOMO had all the information they needed to make a decision by 30 March 2023 but delayed that decision until 12 July. This raises questions about their efficiency and responsiveness.
- SOMO never highlighted any potential risk or issue with the valuation report until July, which shows a lack of transparency in the process.
- SOMO never mentioned her income as an issue.
- SOMO didn't inform her they were exploring different funding lines because of the valuation.
- SOMO confirmed that the reason for the reduced offer was due to the reduced valuation which they received in March 2023. SOMO have now presented a different rationale which shows inconsistency and a lack of honesty.
- SOMO never mentioned the issue of planning permission throughout the application stage.
- She understood that the offer may change after valuation, so she was in constant communication with SOMO to check the implications.
- No issues or concerns were raised by SOMO throughout the whole process until 12 July.

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.

Having considered the additional comments Mrs A has made on behalf of M, I'm not upholding this complaint for the reasons I've set out in my provisional decisions. And I adopt those findings in this final decision.

I appreciate Mrs A's points about SOMO not telling her they were exploring different funding lines and that there was an issue with the valuation. But I don't think M has been treated unfairly as a result of that. I don't consider it was unreasonable of SOMO's underwriters to want all the facts and information available to them before making a decision about the lending. Whilst they were aware the valuation had come back lower than expected, that didn't necessarily mean they would be unable to lend the amount M wanted at that stage.

Whilst I appreciate it will come as a disappointment to Mrs A, I'm not persuaded SOMO need to do anything to put things right as a result of the way they handled M's application.

My final decision

Considering everything, for the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 5 December 2024.

Kathryn Billings
Ombudsman