

The complaint

Mr W complains that Target Servicing Limited caused unnecessary delays when he wanted to redeem his help to buy (“HTB”) loan.

The HTB scheme

The HTB scheme was a government scheme in place to support home ownership. In addition to the usual mortgage from a regular lender, a borrower took a shared equity loan funded by the government to reduce the amount of cash deposit that would be otherwise required.

HTB shared equity loans are secured by way of a second charge over the property, ranking behind the main mortgage.

Mr W’s property is in England, and he took the shared equity loan out with Homes England, which was formally known as the Homes and Communities Agency.

Homes England isn’t regulated by the Financial Conduct Authority (FCA) but they appointed Target to administer the loan on their behalf. Target is regulated by the FCA.

The rules which set out the complaints our service can consider are found in the Dispute Resolution (DISP) section of the FCA’s handbook. DISP 2.3 says that our service can consider a complaint if it relates to an act or omission by a firm carrying on a regulated activity.

The Financial Service and Markets Act 2000 (Regulated Activities) Order 2001 sets out the list of regulated activities referred to in DISP. Among the regulated activities listed is debt administration and debt collection.

Having considered the activities that Target was carrying out in relation to Mr W’s agreement, I’m satisfied that the event complained about is an activity that forms part of administering the loan or collecting payments, and therefore is a matter we can consider against Target.

What happened

Mr W bought his property in March 2017, borrowing funds through the HTB scheme which was 20% of the purchase price.

In March 2022, Mr W applied to Target to pay off the help to buy loan. The full valuation that had originally been carried out expired before redemption could take place, so a desktop valuation was provided.

The desktop valuation then expired and Mr W called Target on 28 November 2022 to find out what he could do. Target told Mr W that he could obtain another desktop valuation – which was incorrect.

Mr W contacted Target again in December 2022 and was told that the information he had been given previously was incorrect and a full valuation was needed. Mr W raised a complaint about this, and Target also incorrectly told Mr W that he couldn’t proceed with redemption of the help to buy loan until the complaint had been investigated.

Target acknowledged that they took a very long time to deal with Mr W's complaint and didn't investigate it until May 2023. They offered Mr W a total of £170 for the distress and inconvenience caused.

As a result of the delay in investigating the complaint, Mr W's mortgage offer to repay the help to buy loan had expired by this point, so he had to take out a mortgage on a higher interest rate.

Mr W brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators. Our investigator upheld the complaint. She said that she had seen evidence of the interest rate that Mr W would have taken had it not been for the delays that Target had caused. She said that Target should pay the difference in these interest rates based on what Mr W would have taken out, and also pay the difference in rates for the period that Mr W was on the standard variable rate.

The investigator felt the amount offered of £170 for the inconvenience that Target offered was fair.

The investigator had sent out a couple of opinions as she changed her mind on the redress and Mr W accepted what she had said when her first opinion had been sent out. He also said that while he appreciates the investigator asking Target to pay the difference in the rates for two years, it's five years that he is out of pocket because the original fixed rate he wanted to take, was for five years and not two.

Target didn't respond at all so the case was passed to me to decide.

My provisional decision

I issued a provisional decision on 18 July 2024. I said:

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

Although I've read and considered the whole file, I'll keep my comments to what I think is relevant. If I don't comment on a specific point, it's not because I've not considered it but because I don't think I need to comment on it in order to reach the right outcome.

As I've explained in administering the loan on behalf of Homes England, Target is carrying out the regulated activities of debt administration and debt collection. In carrying out the regulated activities, Target is performing the lender's duties, and exercising the lender's rights, under the terms of the credit agreement, as well as collecting payments the lender is entitled to. In my view, this means that Target must do what the lender is required to do, and only take steps the lender is entitled to take, while acting on the lender's behalf. And as a regulated firm they have wider obligations to act fairly.

Under the terms and conditions of the loan, Mr W is entitled to redeem the loan at any time, either by selling the property or by repaying it in some other way (such as from savings, or by taking further borrowing on the main mortgage) – which is what Mr W wanted to do here.

According to the terms and conditions, a redemption request should be made to Target as the nominated agent. A valuation is then arranged by the appointment of a qualified surveyor by agreement between the parties. That valuation is binding in setting the redemption figure, and the loan should be repaid within three months (extendable to four on application) of the valuation.

In this case, Mr W followed the appropriate process for redeeming the loan, by notifying Target and then – at Target's request – obtaining an independent valuation of the property. In this case, that valuation had expired so a desktop valuation had been provided to Target. This then also expired and it's not in question that Target

gave Mr W incorrect information that another desktop valuation was acceptable – as we now know this should have been a full valuation.

Mr W raised a complaint about this on 13 December 2022 and he was incorrectly told that until the complaint had been investigated, he couldn't proceed with the redemption of the help to buy loan. Target didn't investigate this complaint until May 2023 – having sent their final response about the matter on 27 May 2023.

Target acknowledged the delay and offered Mr W £170 compensation for the distress this caused along with a refund of £100 for the second desktop valuation that Mr W had arranged. But they haven't considered what this delay actually meant for Mr W.

Mr W was originally provided with a mortgage offer for £40,000 to repay the help to buy loan at a rate of 3.19% fixed for five years until 30 September 2027. This offer was dated 26 October 2022 and was valid until 26 April 2023.

Mr W said that their lender told them to borrow the amount they wanted for the help to buy loan first, and then they would provide them with an offer for the rest of their mortgage at the same rate.

Mr W has provided a letter from his lender which gave details as to how much the rest of the mortgage would have been at a rate of 3.19% which was available at the time. But it's not clear why Mr W didn't apply to switch his main mortgage onto a new rate at the same time as the additional borrowing was applied for of £40,000. The fixed rate for the main mortgage ended in April 2022 so it looks like this mortgage may have moved onto the standard variable rate.

Having carefully looked at everything, it's evident that Target did delay matters because they didn't investigate Mr W's complaint until May 2023 and this should not have had any impact in Mr W redeeming the help to buy loan. Mr W had a mortgage offer approved at a rate of 3.19% and had Target not delayed matters, Mr W would have been able to redeem the help to buy loan in time, before the offer of 3.19% expired.

I can see that Mr W ended up having to take out a higher fixed rate for the total amount required which included the help to buy loan at a total of £144,400 plus £495 fees which were added to the loan. This loan was at an interest rate of 6.39% fixed for two years and ends 31 December 2025. The 6.39% was for both the main mortgage which was switched to that rate and the additional borrowing of £40,000 which was used to repay the help to buy loan.

Based on the information that has been provided, while it's not clear why Mr W didn't apply to switch his main mortgage at the same time as the additional borrowing, he did go on to do this in October 2023 so I think that had things gone the way they should have done, Mr W would have then been able to switch his main mortgage at the time that his loan ought to have redeemed, which I think would have been by the end of February 2023.

We asked Mr W's lender for some information to try and understand what happened, and why Mr W didn't apply to switch his main mortgage at the same time that the application was made for £40,000.

The contact notes provided show that Mr W only applied for additional borrowing of £40,000 and nothing to show that he was thinking about switching the main mortgage at the same time. The original mortgage offer for his main mortgage shows that his fixed rate of 2.60% expired at the end of April 2022 and then Mr W's mortgage would revert to the standard variable rate – which appears to be what had happened.

Mr W ended up going on the standard variable rate while he was waiting for the help to buy redemption to go through so I'm persuaded by what he says in that he wanted

this to happen first, and then he would switch his main mortgage after. I know he said that his lender told him to do it this way round, but I've not seen anything that confirms this. But because of all the delays, Mr W did have to take out a higher rate on the additional borrowing and at that point, he also switched his main mortgage which is confirmed by the mortgage offer from October 2023 which shows the rate of 6.39%.

Based on the information provided to me by Mr W's original lender, I have no reason to doubt that had things gone as they should have done, that Mr W would have switched his main mortgage once his help to buy loan was redeemed as there would be no reason why he would choose to remain on the standard variable rate when he could in fact get a lower interest rate.

It's clear that Mr W ended up paying a rate of 6.39% for the additional loan of £40,000 instead of the rate of 3.19% that he would have got had Target not delayed things. So I think that Target will need to pay the difference in these rates for a period of two years.

Having looked at the interest rates that were available in February 2023 for Mr W's main mortgage, it looks like he would have been able to switch his main mortgage onto an interest rate of 4.98% for two years. So I think that Target will need to pay the difference in these rates on his main mortgage as well, as I think he would have done this once the help to buy loan was redeemed.

The reason that I have looked at interest rates from February 2023 is because this is when I think Mr W's help to buy loan would have been redeemed. And I didn't see anything from his existing lender which persuaded me that he planned on switching his main mortgage sooner than that.

I appreciate that Mr W's mortgage offer for £40,000 on a rate of 3.19% was fixed for five years, but he ended up taking a two-year fixed rate product and it's difficult to predict what the rates will be after two years and what Mr W will end up doing, so the difference in these rates will need to be worked out over a two year period instead of five.

As Mr W has been on the standard variable rate, Target will need to base some of these calculations against that interest rate and Mr W will need to evidence to Target what he paid at that time – from February 2023 until the date the loan was redeemed.

There doesn't appear to have been any change in the valuation amounts that were carried out so there is no loss here based on the amount that Mr W needed to redeem the help to buy loan.

I'm awarding redress on the same basis as our investigator set out which is on the assumption that if the redemption had proceeded correctly, then redemption of the loan was likely to have happened by the end of February 2023.

That means it's not fair that Mr W should pay any interest or management fees since then. So Target should refund all interest and management fees paid from March 2023 until the date the loan was redeemed, adding simple annual interest of 8%* running from the date each payment was made to the date it is refunded.

Mr W has said that he paid another valuation fee after being told the incorrect information by Target that he was able to obtain another desktop valuation, but as this wasn't the case, Target have already offered to refund the £100 desktop valuation fee that Mr W paid which I think is right in the circumstances. Target should refund this amount to Mr W plus simple annual interest of 8%* from the date the valuation fee was paid to the date it is refunded.

The impact of the delay in not being able to redeem the loan has caused Mr W distress and inconvenience. Having considered everything, I think that Target should increase their compensation to £300 in total rather than the £170 that has been offered.

Developments

Mr W responded and queried what I had said about the main part of the mortgage and felt that this should have been calculated on an interest rate of 3.19% rather than the rate I had suggested.

He said that he had been in touch with his lender but there is no mortgage offer to show that they would have been given the 3.19% as they were told that the additional borrowing of £40,000 had to go through first. Mr W feels this is unfair as this is how their lender asked them to apply.

Mr W did send through the letter from his lender (that we already have on file) where it was estimated how much their main mortgage would have been on an interest rate of 3.19%. He would like us to consider that this is the interest rate he would have been on for his main mortgage as well as the additional borrowing if they had both gone through at the same time.

Target didn't respond to the provisional 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 thought about what Mr W has said regarding the difference in the interest rates. I said in my provisional decision that had the help to buy loan of been redeemed when it should have been - and I said this would have been by February 2023 – then Mr W could have then switched his main mortgage to a new rate as well.

I have seen the letter that has been provided by his lender which explains how much the main mortgage would have been on a rate of 3.19% but like I already explained, there was nothing that had been provided by his lender that showed me that any discussions had taken place about the main mortgage. The only application that had been made at that time was for the additional borrowing.

I accept that Mr W may have been told by his lender that he had to apply for the additional borrowing first and it may be that they can't allow two applications to go through at the same time. But it doesn't mean that Target are responsible for that. I explained that the help to buy loan ought to have been redeemed by the end of February 2023 so I've looked at what interest rates were available at that time. If his lender wanted the help to buy loan to be redeemed first, then Mr W would have made an application at that point to switch his main mortgage – and the 4.98% interest rate is what would have been available at that time. So while I know that Mr W will be disappointed that I am not asking Target to pay the difference against the rate of 3.19% - I hope my explanation is clear on this point.

If his lender has their own criteria for how and when applications are made and in what order, like I said, I can't hold Target responsible for that. This outcome puts Mr W back in the position he would have been in had the help to buy of redeemed by the end of February 2023 based on the interest rates that were available to him at that time.

My final decision

For the reasons I've given above and in my provisional decision, I uphold this complaint and direct Target Servicing Limited as follows:

Part 1 main mortgage

- Pay the difference in the standard variable rate that Mr W paid from 1 February 2023 and the fixed rate of 4.98% that Mr W would have taken, until the date of redemption. Then from the date of redemption, Target should pay the difference between the rate of 4.98% against the rate of 6.39% that he ended up taking – until 31 December 2025.

Part 2 additional borrowing

- Target should refund all interest and management fees paid by Mr W from 1 March 2023 to the date of redemption, adding simple annual interest of 8%* running from the date each payment was made to the date it is refunded. These costs should be calculated against the interest rate of 3.19% that Mr W would have taken, until the date of redemption. Then target should pay the difference in the rate of 3.19% against the rate of 6.39% from the date of redemption until the end of the two-year fixed rate – 31 December 2025.

Additional costs

- Refund Mr W the £100 desktop valuation fee (if not already done so) plus simple annual interest of 8%* from the date the valuation fee was paid to the date it is refunded.
- Target should pay Mr W £300 compensation in total.

*If Target considers that it's required by HM Revenue & Customs (HMRC) to deduct tax from the interest refund, it should tell Mr W how much it has taken off. It should also give Mr W a tax deduction certificate if he asks for one, so he can reclaim the tax from HMRC if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 29 August 2024.

Maria Drury
Ombudsman