DRN-5057821

The complaint

Ms K complains that The Co-operative Bank Plc trading as Platform wouldn't allow her to take a new interest rate on her mortgage.

What happened

Ms K has a mortgage – it was originally taken out with Platform Funding Limited, and later (in around 2016) transferred to The Co-operative Bank Plc trading as Platform. Both firms are part of the same banking group and after the transfer the lender continued to be badged as Platform even though the underlying firm had changed. But to avoid confusion I'll refer to the pre-transfer lender as Platform and the post-transfer lender as The Co-op.

Ms K complains that for the last few years she has repeatedly asked The Co-op for a new interest rate on her mortgage without success. She says she's spoken to many advisers on the phone but been refused a new interest rate – even though the mortgage is up to date and not in arrears. Ms K says that more recently The Co-op agreed to consider a new interest rate – but only if she passed an affordability assessment. Ms K says that an affordability assessment isn't needed just to switch rates with the same lender.

Ms K says that The Co-op's unwillingness to offer her a new interest rate has caused her substantial difficulty – as interest rates have increased, the increasing monthly payment has caused her financial problems and led to her falling behind with other bills.

The Co-op said it does allow ex-Platform customers to take a new interest rate – but to do so they would have to take out a new mortgage with The Co-operative Bank Plc trading as Britannia (a different brand of the same firm), which would involve a full affordability assessment.

The Co-op said that Ms K first asked for a new rate in March 2022. It accepts that it wrongly told her at that point that it couldn't offer her a new interest rate and that she should seek independent financial advice. In September 2022 it did give her correct information, that she could apply to re-mortgage to Britannia, and began an application. In October 2022 it asked her for evidence of income and expenditure to assess affordability but Ms K didn't reply. It heard nothing more until Ms K applied again and made this complaint in October 2023.

The Co-op said that it had provisionally approved a re-mortgage, but that would need to be subject to Ms K passing an affordability assessment. It said it ought to have made that clear in March 2022, not September 2022, and offered £150 compensation for that, plus £50 compensation for difficulties contacting a mortgage adviser to make a further application in November 2023.

I didn't think that The Co-op had treated Ms K fairly. I issued a provisional decision explaining why, and setting out what I thought it needed to do to put matters right.

My provisional decision

I said:

“Ms K took out her mortgage in 2006. She borrowed £68,000 on repayment terms over 30 years. The mortgage was on an initial fixed rate of 6.25% until March 2010, followed by a reversion rate of 2.5% above the LIBOR rate.

Ms K’s mortgage is now with The Co-op, and as such she is a customer of The Co-op. It doesn’t make any difference that The Co-op treats her mortgage as part of the Platform brand – as opposed to the Britannia brand – both brands are part of the same firm, and therefore any change of interest rate or full re-mortgage would be within The Co-op as a firm.

With that in mind, I’ve considered what the rules of mortgage regulation (known as MCOB) say.

MCOB 11.6.3 R says that an affordability assessment isn’t necessary where an existing lender varies, or replaces, an existing mortgage – provided there isn’t any further borrowing or other change material to affordability also being made. I’m also aware that the regulator has pointed to the use of affordability assessments in simple rate switches as an example of unfair treatment under this rule.

MCOB 11.8.1 E says that, where a borrower is unable to move their mortgage to another lender, treating them less favourably than other borrowers with similar characteristics – for example, by offering less favourable interest rates – might be evidence of unfair treatment.

It’s my understanding that a customer who already has a Britannia mortgage wouldn’t be required to pass an affordability assessment just to take a new interest rate with no other changes. If Ms K meets the same eligibility criteria as such a Britannia customer – if her mortgage is not in arrears and she has an acceptable loan to value – then she has similar characteristics to that customer. I don’t consider the fact that her loan was taken on with Platform many years ago (and underwritten on that basis) to be relevant to her characteristics much later, when she wanted to take a new interest rate. Nor do I consider which brand The Co-op has decided to treat her as being part of to be relevant. As MCOB 11.8.1 E makes clear, the comparison is with similar customers of the same firm, not merely the same brand as a sub-set of customers of the firm.

With that in mind, I think that requiring Ms K to pass an affordability assessment which wouldn’t be required of an existing Britannia customer – when both are otherwise similar customers of the same lender – isn’t fair treatment.

And even if Britannia customers were also required to undergo and pass an affordability assessment merely to access a rate switch, that might be the answer to whether Ms K was treated less favourably taking into account MCOB 11.8.1 E. But it’s not an answer to whether she was treated unfairly taking into account MCOB 11.6.3 R – which makes clear an affordability assessment isn’t required for a simple rate switch (whether or not done through a variation or a re-mortgage). In my view, using such a requirement as a barrier when the regulator says it isn’t necessary meant that Ms K wasn’t treated fairly.

I haven’t seen evidence that Ms K asked for a new interest rate before March 2022. A lender can only offer a new interest rate if a customer applies for one – it’s up to the customer to make an application. So I don’t think The Co-op treated Ms K unfairly before March 2022.

But once she did make an application, there was an obligation on The Co-op to treat her fairly in considering that application. I don't think The Co-op did that. In March 2022 it told her it wouldn't consider an application at all. And in September 2022, and again in October 2023, it told her it would only consider changing her interest rate if she passed an affordability assessment. For the reasons I've explained, I don't think that was fair.

To put things right, The Co-op should put Ms K back in the position she would have been in had it treated her fairly in March 2022. It should switch Ms K to a Britannia-branded mortgage, applying the best available five year fixed rate applicable to Britannia customers with her loan to value as at 10 March 2022, backdated to 1 April 2022 (allowing some time for the administrative process needed).

I've selected a five year fixed rate – I don't know what Ms K would have selected at the time because The Co-op didn't take her application forward. But based on what she's said I think she was looking for stability and certainty in her monthly payments to allow her to manage her budget – and so I think she would have taken a longer term rate.

Backdating the fixed rate to 1 April 2022 will mean that Ms K has made overpayments in the meantime. She should therefore be given the choice of either:

- Having the overpayments refunded to her – adding simple annual interest of 8% running from the date of each payment to the date of refund; or

- Using the overpayments to reduce the mortgage balance month by month. This will mean that Ms K gets the benefit of the compounding effect of regular overpayments over time.

If the best available five year fixed rate as at 10 March 2022 included a product fee, The Co-op should offset the product fee from the redress before then applying the option Ms K chooses to the remainder.

Finally, I think the failure to offer Ms K a new fixed rate has caused her substantial distress and inconvenience. It's meant that she's had to deal with the impact on her wider finances of rising mortgage interest rates, and created broader financial difficulty over a long period. The Co-op offered £150 compensation when the complaint came to us, but in the circumstances I think £750 is fair. This is in addition to the £50 already paid for poor service in November 2023."

The responses to my provisional decision

The Co-op didn't make any further points.

Ms K welcomed my provisional decision. She said that The Co-op should have told her about the chance to reduce her interest rate and monthly payments – not make it difficult and stressful and deprive her of the chance. She said she had never missed a payment but had really struggled when the interest rate she was being charged rose after 2022. She said that the process it put her through when she tried to apply in October 2022 was unnecessarily complicated and difficult and not appropriate for a rate switch – other lenders allow this. She doesn't agree that the 2022 application didn't go ahead because she didn't provide documents – she said that The Co-op told her she couldn't have a new interest rate because it wasn't affordable. She says that The Co-op suggested increasing her income or adding her partner to the mortgage. She sought independent advice and was told she hadn't been treated fairly. Ultimately The Co-op treated her unfairly by asking for affordability information which isn't necessary for a rate switch. She said she would also have to pay a fee to re-mortgage.

Ms K says this caused her real difficulty. As her mortgage became more expensive she struggled to afford her other outgoings and support her family. She was worried about their situation and became depressed. She asked The Co-op for help many times without success.

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 considered again what I said in my provisional decision, and I haven't changed my mind. I remain of the view that The Co-op ought, acting fairly, to have allowed Ms K to have taken a new interest rate in 2022. I've taken into account what she's said about the impact this had on her and I think £750 compensation is fair – it's a substantial award which recognises that The Co-op's failure to treat her fairly had an ongoing impact on her over two years, including causing financial difficulty as well as distress and upset.

My final decision

My final decision is that I uphold this complaint and direct The Co-operative Bank Plc trading as Platform to:

- Switch Ms K to a Britannia-branded mortgage, applying the best available five year fixed rate for her then loan to value as at 10 March 2022, backdating the implementation of the rate to 1 April 2022.

- Give Ms K the option of either:

    - Having the resulting overpayments refunded to her – adding simple annual interest of 8% running from the date of each payment to the date of refund; or

    - Using the overpayments to reduce the mortgage balance month by month. This will mean that Ms K gets the benefit of the compounding effect of regular overpayments over time.

  If the selected fixed rate includes a product fee, the fee may be offset from the redress before applying Ms K's choice to the remaining redress.

- Pay Ms K a further £750 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 6 November 2024.

Simon Pugh
Ombudsman