DRN-5207294

The complaint

Mr B is unhappy that the new interest rate he agreed on his existing mortgage with The Royal Bank of Scotland Plc (RBS) was higher than that available to a new customer.

What happened

Mr B originally took out a mortgage with RBS in December 2021. The loan was for around £277,000 over a 26-year term, on a repayment basis. The initial interest rate was 1.18% fixed to 29 February 2024.

In January 2024, Mr B agreed a product switch moving to a fixed rate of 4.64% on the outstanding borrowing until 30 April 2026. He also extended the mortgage term to 28 years and 10 months.

Shortly after, Mr B complained to RBS that he'd noticed the rate available to new customers for an equivalent loan was lower (4.49%) than what he'd been offered. Mr B said this was contrary to the Consumer Duty regulations set by the Financial Conduct Authority (FCA), in that this did not represent a good outcome for him and was causing him foreseeable harm. He wanted RBS to give him the rate available to new customers.

RBS didn't uphold the complaint. It said it didn't think its rate offerings were contrary to the Consumer Duty rules. It said that a range of factors influenced the rates it offered to new and existing customers and that an existing customer product switch was quicker and simpler than a new customer applying for a re-mortgage. It said that a customer re-mortgaging from elsewhere needed to pay legal and valuation fees, as well as go through an affordability assessment.

Mr B remained dissatisfied. He said that if anything, he (as an existing customer) should benefit from a lower rate, because him effecting a product switch would cost RBS less than a customer re-mortgaging to RBS from another lender and also represent a lower risk. He also said he'd seen that for the equivalent product re-mortgaging from another lender, RBS was offering to cover legal and valuation fees. Mr B said he either wanted RBS to give him the rate available to a new customer, or to pay him the difference. He also wanted £100 for the time it had taken him to raise the issue.

RBS didn't change its stance and Mr B referred his concerns to the Financial Ombudsman Service.

An Investigator here issued an assessment on the case. In summary, they said that a lender offering lower rates to prospective new borrowers wasn't inherently unfair, as long as the lender could demonstrate that both products still offered fair value to both groups of customers.

Mr B remained unhappy and asked for the case to be considered by an Ombudsman. He didn't think the Investigator's assessment adequately explained how RBS had met its obligations under Consumer Duty. He also said he was unhappy that RBS hadn't contacted him to check why he'd extended the mortgage term under the Mortgage Charter.

The Investigator's opinion remained the same. They also said that the issue Mr B had mentioned about the extension to the term of his mortgage hadn't formed part of the original complaint and this would need to be raised with RBS in the first instance, before we could get involved.

After obtaining information from RBS about how it ensured that the products in question represented fair value for customers, the Investigator issued another assessment. They said that under the Consumer Duty lenders needed to ensure their products delivered fair value and that, having seen RBS' assessment in this regard, they were satisfied RBS hadn't done anything wrong.

Mr B said a recent FCA update on pricing and value was relevant and he re-iterated that he wanted the matter considered by an Ombudsman. The case has been passed to me to decide.

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 done so, I've reached the same overall outcome as the Investigator and for broadly the same reasons. Before I explain why, I want to set out the purpose of my role. It isn't to address every single point that's been made to date or to answer questions posed by either party. Instead, it's to decide what's fair and reasonable given the circumstances of this complaint.

For that reason, I'm only going to refer to what I think are the most salient points when I set out my conclusions and my reasons for reaching them. But, having considered all of the submissions from both sides in full, I will continue to keep in mind all of the points that have been made, insofar as they relate to this complaint.

I need to decide whether RBS has acted fairly and reasonably towards Mr B. The key issue in this case is the fairness of RBS offering different interest rates to different groups of customers. I don't think there is anything inherently unfair in a lender choosing to do that, or that it is expressly prohibited by law or the rules and regulations – including the Consumer Duty – that apply.

Mr B believes that RBS offering him a product switch with a higher rate of interest than that available (on an equivalent mortgage) to a prospective new borrower re-mortgaging from a different lender, is contrary to the Consumer Duty. He says RBS isn't acting in good faith, isn't giving him a good outcome, and is causing him foreseeable harm.

RBS says that the fact the interest rate it offered Mr B as an existing customer for a product switch was higher than the rate offered to a prospective new borrower, isn't contrary to the Consumer Duty rules.

Under the Consumer Duty, RBS is required to ensure that its products offer fair value. And I think that is key here.

If RBS can demonstrate that the product Mr B chose offered fair value, by reference to its costs and benefits, then it follows that I'm likely to conclude it hasn't treated Mr B unfairly by offering differential pricing to new and existing customers. So, this is what I've considered.

Delivering fair value isn't just about the price (e.g. the interest rate charged) of a product, but broader considerations such as a product's benefits, costs and target market. The FCA provided specific guidance on differential pricing in FG22/5. In section 7 (The price and value outcome) under 7.38, it said:

> "*The price and value outcome rules do not require firms to charge all customers the same amount. Differential pricing between new and existing customers in the form of clear, transparent up-front discounts for either set of customers is not prohibited by the Duty".*

So, the FCA's Consumer Duty guidance explicitly states that differential pricing between new and existing customers is allowed. Mr B has referenced the FCA's recent 'Price and Value Outcome: Good and Poor Practice update'. However, this doesn't say that differential pricing isn't allowed. The FCA guidance under FG22/5 still applies.

Firms should be able to show how they have considered whether the products they offer represent fair value. We've asked RBS to provide details of its assessment of fair value, which it has provided to us in confidence. Our rules allow me to accept it as such and not share it – beyond a summary.

In summary, the assessment shows that RBS considered a range of factors. They included the product's benefits (such as the ease with which an existing customer could switch to new mortgage deals quickly and at low cost), price (bearing in mind comparable products in the marketplace), and costs. Having carefully considered this information, I'm satisfied that RBS considered whether its interest rate products offered fair value to different groups of customers.

Mr B argues that RBS should give him a lower interest rate because he says the cost to RBS of providing him with a product transfer will be lower than the cost of someone re-mortgaging from another lender. And that he poses less risk because RBS has two years' worth of successful repayment history.

I understand Mr B's perspective, but he is focusing in on considerations that he believes are particularly important. RBS has taken account of a broader set of considerations, which it is entitled to do.

Mr B is correct that RBS was offering free legal and valuation for prospective borrowers considering re-mortgaging to RBS on the equivalent mortgage. However, there are still differences – for example, such a prospective borrower would still have needed to go through an affordability assessment, in contrast to someone effecting a product transfer, like Mr B.

RBS treated Mr B the same as all other customers with the same characteristics i.e. an existing customer seeking a re-mortgage at the relevant loan-to-value. I'm satisfied it has demonstrated that the product offered to and accepted by Mr B represented fair value in relation to the cost and benefit of that group of customers.

I would also note that Mr B was always free to shop the wider market and approach another lender, if he wasn't satisfied with the rates offered to him by RBS.

In conclusion, I haven't found that RBS has treated Mr B unfairly.

Finally, if Mr B wishes to pursue his concerns in relation to him extending the term of his mortgage, he will need to raise this separately with RBS in the first instance, before we could get involved.

My final decision

My final decision is that I don’t uphold Mr B’s complaint about The Royal Bank of Scotland Plc.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 14 March 2025.

Ben Brewer
Ombudsman