

The complaint

Mr B's complaint arises out of a mortgage application he made to Santander UK Plc in 2023. Mr B says that Santander incorrectly told him that a change to the purchase price of his property would not affect his mortgage offer, but a reduction in the purchase price changed the loan-to-value ratio (LTV). As a result, Mr B had to select a new product at a higher rate of interest.

To settle the complaint, Mr B wants Santander to compensate him for his financial losses.

What happened

In May 2023 Mr B made an online application to Santander for a mortgage. He was buying a property for £127,000 and Santander issued a mortgage offer for £96,249 over 20 years at an interest rate of 4.48% fixed until 2 August 2025, so the loan-to-value ratio (LTV) was just under 75%. The mortgage offer was valid until the end of October 2023. Due to delays in the conveyancing process, in October Santander agreed to extend the mortgage offer until 31 December 2023. Santander confirmed at that time that no changes could be made to the mortgage offer.

On 27 October 2023 Mr B contacted Santander to say that he'd negotiated a reduction in the purchase price, down to £125,000. He'd been trying to enter this on the online portal, which kept telling him he'd need to pick a new interest rate. This was, in fact, correct, because the reduction in the purchase price meant that the LTV had increased over 75%, meaning the interest rate product Mr B had selected was no longer available to him. However, Mr B didn't know this, and when he spoke to Santander on 10 November 2023, the bank failed to spot that, because the mortgage offer had been extended, it wasn't possible to make any changes to it.

However, three days later, on 13 November 2023, Santander confirmed that Mr B would need to pick a new interest rate product. In order to stay within the 75% LTV, he needed to reduce his borrowing to under £95,000, but the 4.48% rate was no longer available. On 24 November 2023 a new mortgage offer was issued for £94,749 over a 20-year term on an interest rate of 5.14% fixed until 2 April 2027. Mr B completed his purchase in early December 2023.

Mr B complained, saying that the incorrect information Santander had given him had resulted in him sustaining financial loss. Santander acknowledged it had not explained the implications of reducing the purchase price, and paid Mr B £100 compensation.

Dissatisfied with Santander's response, Mr B referred his complaint to our service. An Investigator looked at what had happened. He asked Santander to reconsider its offer, given that the bank had acknowledged it had given Mr B incorrect information. Santander agreed to pay total compensation of £550, which took into consideration the higher monthly repayments (a difference of £24.77 per month) Mr B would be making up until 2 August 2025, when the original fixed rate would have expired.

The Investigator thought this was fair, but Mr B did not, and he asked for an Ombudsman to review the complaint.

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.

First, I note that Mr B is unhappy at the end date of his fixed rate product. This is a new issue that Mr B hadn't mentioned in his original complaint. Mr B will need to raise this with Santander as a new complaint and, if he's unhappy with the bank's response, he can then refer a new complaint to our service about this. But I won't be looking at that issue here because Santander has not had an opportunity to address the complaint.

I will also explain that we don't provide an auditing service. Therefore, whilst I've noted Mr B's comments about amortisation, I won't be carrying out a calculation of daily amortisation on the two mortgage offers to compare the difference.

Santander doesn't dispute that Mr B wasn't told on 10 November 2023 that he'd need to select a new interest rate product if the purchase price was reduced. It wasn't until three days later, on 13 November 2023, that Mr B was told this. Where a mistake has been made, we try where possible to put the consumer in the position they'd have been in if the mistake hadn't been made. In this case, Mr B would have known three days earlier that he'd need to pick a new product.

Mr B completed his mortgage application online, and didn't take any advice from Santander. Notwithstanding this, when he spoke to Santander about changing the purchase price, Santander should have noticed that, because the mortgage offer had been extended, Mr B couldn't make any changes, including a reduction in the purchase price, without the need to choose a new product.

Once Mr B knew the situation on 13 November 2023, he had the following options:

- continue with the purchase at £127,000 borrowing £96,249 on the existing 4.48% rate;
- select a new interest rate product for the purchase at £125,000;
- withdraw from the purchase altogether.

Mr B has explained that, as a first-time buyer, he was invested in the purchase, both emotionally and financially, and so I completely understand why he wouldn't have wanted to withdraw from it. The reduction in the purchase price meant that Mr B had to choose a new product. If Mr B had kept his borrowing at £96,249 on the reduced purchase price of £125,000, this would have increased the LTV to more than 75%. In order to access interest rates available to customers wanting to borrow less than 75% LTV, Mr B needed to reduce the amount he needed to borrow, which he did.

I've compared the cost of both mortgages, and note that if Mr B had continued with the purchase at £127,000 with a mortgage of £96,249 on the 4.48% rate he'd have paid almost £7,000 more over the 20-year term than he is due to pay on the mortgage he took out over the same term borrowing £94,749 at the fixed rate of 5.14%. Mr B also gained by saving £2,000 on the purchase price. Therefore, although Mr B will be paying £24.77 per month more on the 5.14% fixed rate than he would have done on the 4.48% fixed rate, overall, his financial position is in fact better over the longer term.

Putting things right

Santander has offered Mr B compensation for the higher monthly repayments he will be making for the period 6 December 2023 to 2 August 2025 (when the 4.48% rate would have expired). This totals £520.17. Santander has agreed to pay Mr B £550, which I think is fair and reasonable in all the circumstances. This is in addition to the £100 Santander has already paid Mr B, so the total compensation for distress and inconvenience is just under £130. Given that the period of time before Santander corrected its error was only three days, I think this is fair and reasonable in all the circumstances.

My final decision

My final decision is that Santander UK Plc must pay Mr B £550 compensation. I make no other order or award.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any discussion about it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 4 February 2025.

Jan O'Leary
Ombudsman