DRN-5258880

The complaint

Mr and Mrs B's complaint relates to the mortgage they have with National Westminster Bank Plc (NatWest). They don't think it is correct or fair that interest rate products offered to existing customers are not as beneficial as those offered to new customers.

What happened

Mr and Mrs B took out their mortgage with NatWest in 2019. The interest rate product they linked to it was due to expire in January 2025.

In 2024 they were looking into taking a new product and identified one, for which they had to pay a £995 fee, that provided a fixed rate of 4.68% over five years. However, when they looked at the products that NatWest was offering overall, they identified that it was offering a five-year product to new customers re-mortgaging to it which fixed the interest rate at 4.07%, with a fee of £1,495.

Mr and Mrs B complained as they considered that this meant that they were being penalised for being existing customers. They also believed that it breached the Regulator's rules for treating customers fairly.

NatWest responded to the complaint in a letter of 28 August 2024. It said that Mr and Mrs B had been offered rates in line with its current policy and believed that policy was fair.

Mr and Mrs B were not satisfied with NatWest's response and asked this Service to consider their complaint. One of our Investigator's did so, but he didn't recommend that it be upheld. He explained that a lender offering different rates to different types of borrowers, was not inherently unfair, as long as it could demonstrate that the products offered fair value. He was satisfied from the information provided by NatWest that the products offered did represent fair value.

Mr and Mrs B didn't accept the Investigator's conclusions. They said that NatWest offering better rates to new customers while disregarding the loyalty of existing ones was unfair and systematic of a broader issue in financial services. They expanded by saying that they believed that the practice penalised long-standing customers who had demonstrated reliability and trustworthiness. In summary, they considered that offering lower rates to new customers inherently contradicted the principle of fair treatment under the regulations, including the Consumer Duty. They asked that the complaint be referred to an Ombudsman for review.

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.

It is for us to assess the reliability of evidence, from both sides, and decide how much weight should be attached to it. When doing that, we don't just consider individual documents in isolation. We consider everything together to form a broader opinion on the whole picture.

Our enabling legislation, the Financial Services and Markets Act 2000, provides at section 225 that we are required to resolve complaints "*quickly and with minimum formality*". We're impartial, and we don't take either side's instructions on how we investigate a complaint. We conduct our investigations and reach our conclusions without interference from anyone else. That means I don't have to address every individual question or issue that's been raised if I don't think it affects the outcome.

We have no regulatory function; that's the role of the Financial Conduct Authority (FCA); nor are we a consumer protection body. We're an alternative dispute resolution body; an informal alternative to the courts for financial businesses and their customers to resolve their differences. We deal with individual disputes – when we're able to – subject to rules laid down *by* the FCA (which are known as the DISP Rules).

As such, when considering this complaint, I need to decide whether NatWest has acted fairly and reasonably towards Mr and Mrs B. The key issue in this case is the fairness of NatWest offering different interest rates products 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 and Mrs B think that NatWest offering them a product 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 Regulator's principle of treating customers fairly and the Consumer Duty. They believe NatWest isn't acting in good faith, that it isn't avoiding causing them foreseeable harm and it is not enabling them to pursue their financial objectives as it should. NatWest says that the fact the interest rate it offered Mr and Mrs B as existing customers 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, NatWest is required to ensure that its products offer fair value, and that is what is key in determining the outcome of this complaint.

If NatWest can demonstrate that the product Mr and Mrs B chose offered fair value, by reference to its costs and benefits, then it follows that I am likely to conclude it hasn't treated them unfairly by offering differential pricing to new and existing customers. So, this is what I have 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 relation to the Consumer Duty 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.

However, firms should be able to show how they have considered whether the products they offer represent fair value. We asked NatWest 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 NatWest 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 am satisfied that NatWest considered whether its interest rate products offered fair value to different groups of customers.

Mr and Mrs B argue that NatWest should give them a lower interest rate product because they pose less risk because NatWest has several years' worth of successful repayment history. I understand what Mr and Mrs B are saying, but they are focusing in on considerations that *they* believe are particularly important. NatWest has taken account of a broader set of considerations, which it is entitled to do.

NatWest treated Mr and Mrs B the same as all other customers with the same characteristics i.e. an existing customer seeking a product switch at the relevant loan-to-value. I am satisfied NatWest has demonstrated that the product offered to Mr and Mrs B represented fair value in relation to the cost and benefit of that group of customers.

I would also note that Mr and Mrs B had the option to look at what else was available in the wider market and change lender if they were not satisfied with the products offered by NatWest.

In conclusion, I haven't found that NatWest has treated Mr and Mrs B unfairly.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs B to accept or reject my decision before 27 March 2025.

Derry Baxter
Ombudsman