

## **The complaint**

Miss D complains that Lloyds Bank PLC (Lloyds) declined her mortgage application based on medical information she had provided in connection with a related application for life and critical illness cover (CIC).

## **What happened**

Miss D received an agreement in principle (AIP) from Lloyds, prior to having an interview with a mortgage adviser. On 5 April 2024, the interview took place, and a full application was made. However, the application was later declined on 9 April 2024.

Miss D says that she completed a medical questionnaire in respect of a life and CIC policy, which meant declaring a health condition. The life and CIC cover was declined due to this, but the adviser told her that this would not affect her mortgage application.

Miss D was told that the mortgage application was declined following a rescore and that she had initially been scored as 'A' but this had later dropped to a 'C'. She says that she was told that something must have changed on her credit file. She therefore obtained a copy of her credit file but found that nothing had changed; it still showed that she had the maximum credit score and that no further searches had been completed since 5 April 2024.

Miss D is therefore unable to understand why her score has reduced and believes that the only explanation for the rescoring is due to the medical information she provided.

Miss D feels that Lloyds has treated her unfairly as they have denied her application for medical reasons. She says that this has caused her significant anxiety and stress as she felt that her medical condition might now impact on her goal to own her own property. Miss D subsequently completed a mortgage application with another lender, which she says was accepted with no issues. However, she says that she has been financially disadvantaged as the mortgage with the other lender is not as competitive as the one with Lloyds.

Lloyds says that Miss D's mortgage application was not declined due to any health or medical reasons. It says that the mortgage was underwritten based on affordability and assessed on risk, and that it was declined due to a drop in Miss D's internal credit score, which changed prior to the offer being issued. Lloyds is unable to give any definitive reason for this but says that this was referred to underwriters who declined to override the decision to decline the application.

Lloyds says that it is very unlikely that the application would have continued from the illustration on 5 April 2024 to being approved for an offer without being rescored again. However, it says that if the rescoring had produced the same score as 5 April 2024, then the application would have continued.

Lloyds says that the mortgage would not be declined as a result of any information given regarding a life and CIC policy as these are separate applications. It says that Miss D's health did not form any part of the assessment in respect of the mortgage application and it therefore did not agree that it had treated Miss D unfairly.

Our Investigator looked into Miss D's case and didn't think that Lloyds had acted fairly. Although he was satisfied that the rescoring was not due to the medical information Miss D had disclosed, he noted that Lloyds had been unable to determine what the actual reason for the change in score was. He was unable to find anything suggesting that there had been a

material change to Miss D's circumstances or application between the AIP and full application and thought the change to the score was therefore unfair.

In order to put things right, the Investigator thought that Lloyds ought to have considered the application as though the score hadn't changed, which it had already confirmed would likely have completed. However, as Miss D had already secured a mortgage with another lender, he was of the view that Lloyds should reimburse any difference between the rate Miss D will pay on her mortgage with the new lender and what she would have paid had the application with Lloyds succeeded. He also thought that Lloyds should pay Miss D £175 in respect of the distress and inconvenience caused.

Following receipt of the Investigator's view, Lloyds offered to make a payment of £300 to Miss D for the trouble and upset caused. In respect of the difference between the rate Miss D paid on her mortgage with the new lender and the rate she would have got with Lloyds, Lloyds has confirmed that its rates were higher than the rate she ended up paying, both at the time of application and throughout the period until the new lender's offer.

Miss D disagrees with the Investigator's view, so the case has come to me to make a decision. She says that it is absurd to suggest that a dramatic change occurred on her credit file within such a short period of time. She says that no changes are recorded on her credit report and that this also shows that no further search was carried out between the appointment on 5 April 2024 until after she had complained on 15 April 2024. Miss D also says that it is implausible that any information provided during the application process resulted in her score on Lloyds' internal scoring system being reduced from 'A' to 'C' given her 'ideal borrower profile'.

### **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 looked at the evidence, I agree with the Investigator's view for broadly the same reasons, and I've explained my reasons further below.

Before lenders are able to lend money to customers, they must follow strict regulatory requirements in order to determine whether and how much they are able to lend. Different lenders will have different lending criteria and it is not for this Service to determine whether a business should lend and what its lending criteria should be. However, whilst it is ultimately for a lender to decide whether to lend to a customer, it must reach this decision fairly having regard to the relevant rules and its own lending criteria.

In this case, Lloyds provided Miss D with an AIP. At this stage, I should say that a agreement in principle is an *indication* of what lending might be possible. It is not a formal offer or guarantee that this amount will be provided. Lloyds has said that its internal scoring system is based on the information keyed in during the application process and that it is only when a formal mortgage offer is issued that it confirms the amount it is willing to lend. It says that an application is very unlikely to proceed without being rescored between an offer is issued and I think that this is reasonable to ensure that the information is up to date.

Lloyds has explained that the reason Miss D's application was declined was because her score on its internal scoring system reduced when her application was rescored and before an offer was issued. I am satisfied from the information I have seen that the underwriters declined Miss D's application on this basis. This was in line with Lloyds' lending criteria, so I can't say that it has treated Miss D unfairly in this respect in itself, as it appears to have used the same criteria it would have applied to all other customers.

I understand that Miss D has checked her own credit report and she has provided this Service with a copy of this. However, there is no suggestion that her personal credit score changed or that Lloyds did a new credit search between the initial application and the

rescore. The score which reduced was on Lloyds' own internal scoring system, which took into account its own lending criteria and affordability. So Miss D's credit report and credit score with a credit reference agency is not relevant to the reduction in her internal score with Lloyds and its declining of the application here.

There is no evidence to indicate that Miss D's score decreased for any reason related to information she had provided in relation to her health. This information was part of a separate application for a life and CIC policy and had no bearing on the mortgage application. So I am satisfied on balance that it has not acted unfairly in this regard.

However, Lloyds is unable to explain what prompted Miss D's score in its internal scoring system to reduce. Whilst I wouldn't necessarily expect it to be able to do this in all situations, there is nothing to suggest that there had been any material change in the information provided within Miss D's application and overall circumstances between the initial score of 'A' on 5 April 2024 and the rescore of 'C' only four days later. And I don't think it was fair for Lloyds to change Miss D's score on its internal system without being able to establish what caused this change.

As I think Lloyds changed Miss D's score on its internal system unfairly, I think it should have considered the application as if the score had not changed from 5 April 2024. Lloyds has agreed that this likely would have resulted in the application being agreed and an offer being produced.

In light of this, I would normally say that Lloyds should put Miss D back in the position she would have been in had the error not occurred. However, as Miss D has already completed on a mortgage with another lender, it would be meaningless for me to ask Lloyds to reconsider the application based on the earlier score. Ordinarily, I would ask Lloyds instead to refund any difference between what Miss D would have paid on the fixed rate with the mortgage with Lloyds and what she will now pay on the fixed rate of the mortgage with the new lender. However, for the reasons below, I am satisfied that there has been no financial loss here.

Miss D has provided a copy of the offer for the new mortgage dated 25 September 2024. This shows that she received a 5-year fixed rate of 4.19% and that the mortgage had a product fee of £999. At the time of the application with Lloyds, it would have offered a 5-year fixed rate of 4.49%, again with a product fee of £999. Therefore, the mortgage Miss D took out with the other lender cost her less than the one she would have got with Lloyds.

Miss D has said that the mortgage rates reduced between the application with Lloyds and the completion of the mortgage with the other lender on 11 October 2024. As Lloyds had told Miss A that she could request an amended offer prior to completion if rates reduced, I have also considered Lloyds' rates over this period. The lowest rate Miss D could have got on a 5-year fixed rate at the same loan to value was 4.29%, which was also higher than the rate she got with the new lender. So, again, I can't say that Miss D has lost out financially in terms of the mortgage she took out with a new lender.

Miss D has also raised the fact that the cost of the surveyor's report for the new lender was £100 more than it would have been with Lloyds. Given the difference in rates that I have set out above, I am still satisfied that the cost of the mortgage with the new lender was still cheaper overall, even taking this additional £100 into account. So I won't be asking Lloyds to make any payment in respect of the difference between the two.

I think that Miss D experienced some distress and inconvenience in the circumstances of this case. Lloyds was unable to provide the reason for the change in its internal score to Miss D and, whilst I am satisfied that her assumption that the application had been declined due to her health was incorrect, I think that this contributed to her distress. Whilst there is no guarantee that an application will be successful, the change in her internal Lloyds score meant that the application was unfairly declined, which would also have caused some

distress and inconvenience as she had to source and secure a mortgage with another lender.

In my view, the offer of £300 made by Lloyds in response to the Investigator's view is fair to recognise the distress and inconvenience caused. And I won't be asking it to increase this.

### **Putting things right**

For the reasons set out above, I uphold this complaint and require Lloyds to:

- Pay Miss D £300 in respect of the distress and inconvenience (if this has not already been paid).

### **My final decision**

For the reasons I've explained above, I uphold this complaint against Lloyds Bank PLC and require it to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 24 April 2025.

Rachel Ellis  
**Ombudsman**