DRN-5283425

The complaint

Mr and Mrs R's complaint is about the advice they were given by TSB Bank plc in 2022 in relation to an application to port their mortgage interest rate onto a new property, and in connection with a further advance.

Mr and Mrs R say they were given the wrong advice, which almost led to the mortgage offer being withdrawn, and which meant they lost out on the interest rate they believe they were entitled to for their further advance.

Mr and Mrs R would like TSB to compensate them for their financial losses, distress and inconvenience.

What happened

I don't need to set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat the details here. In addition, TSB has acknowledged it made errors, and has offered to put things right. This means that I don't need to analyse the events in depth in order to decide if the bank is at fault; all I need to determine is whether the offer made by TSB is fair, or if there is anything more TSB needs to do.

Finally, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs R being identified. So for these reasons, I will instead concentrate on giving the reasons for my decision.

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.

Mortgage application: In 2022 Mr and Mrs R were moving to a new property. Their existing property was subject to a mortgage with TSB for approximately £102,000. The majority of the purchase price for the new property (£530,000) was to be funded by elderly relatives, who were selling their own property and moving into the new property with Mr and Mrs R. The relatives were to pay £305,000 towards the purchase price. In addition, Mr and Mrs R were providing £55,000 of their own funds, and taking out a mortgage of £175,000 with TSB for the balance, on a tracker rate.

The relatives signed a letter confirming the deposit they were providing was a gift and wasn't to be repaid. However, this wasn't correct. TSB has acknowledged the mortgage adviser made an error; the bank's lending criteria do not allow the donors of gifted deposits to reside in the property. It's not entirely clear whether TSB was aware of this, but TSB has acknowledged that the adviser in all likelihood overrode this on the system, because the intention was that the funds were due to be repaid to the relatives within a short period of time, once Mr and Mrs R had sold their existing property.

Once the situation became clear, TSB considered withdrawing the mortgage offer. However, as an exception, due to the advanced progress of the purchase, and because the bank accepted it had made a mistake, the offer wasn't withdrawn and the purchase went ahead. I think this was more than TSB was required to do, given that the application shouldn't have been approved in the first place.

Porting application: Once Mr and Mrs R had sold their existing property for £385,000, their plan was to repay £305,000 to the relatives out of the proceeds of sale, and have £80,000 for renovations. Mr and Mrs R also wanted to port their existing TSB mortgage interest rate product onto the mortgage on the new property in order to avoid an early repayment charge (ERC) on redemption of their existing mortgage. Mr and Mrs R seem to have disregarded that they would need to repay the £104,000 mortgage secured on the property, which wouldn't leave them enough money to do what they were intending.

After Mr and Mrs R sold their existing property in September 2022, they were surprised to find that the mortgage was redeemed and paid off, leaving them with only £281,000 from the net proceeds of sale, rather than the £385,000 they were anticipating. *"We understood it that we would have the equity to be able to do the renovation work. This was not actually the case, and what happened was that the mortgage that was to be ported across was paid off and closed down. This then meant we were unable to fully repay our elderly relatives nor have any funds to start renovations."*

Mr and Mrs R were also surprised that they needed to make an application to port the interest rate onto the new mortgage, rather than the rate just being carried over. I'll explain what is meant by 'porting' a mortgage. A mortgage loan and a mortgage product are two different things. A loan is the underlying transaction in which money is lent; the product is the initial terms that sit on top, including the interest rate.

In moving properties, the borrower pays off the old mortgage from the proceeds of sale. They also, separately, apply for a new mortgage to be secured on the new property, and if the application to port is successful, the interest rate product they wanted to port will be applied to the new mortgage. In other words, porting a mortgage doesn't mean moving the mortgage debt itself from one property to another; mortgage debts are not transferable in this way. It means ending one mortgage and taking another and moving the interest rate product across.

Although it's apparent Mr and Mrs R misunderstood the position, I think it's unlikely that the mortgage adviser misled them into believing that they wouldn't need to repay their original mortgage when they sold the property. Mr and Mrs R haven't been able to explain why they thought the bank would write off over £100,000 when the property was sold.

The internal remortgage to port the old rate over to the new mortgage was put in place in on 1 December 2022. The previous interest rate of 2.79% fixed until 28 February 2027 was applied to just over £104,000 of the existing mortgage. The remaining mortgage of about £70,000 was switched from the tracker rate to an interest rate of 4.14% until 30 November 2027.

Mr and Mrs R say they were misinformed about the porting process. However, the available evidence doesn't persuade me that this was the case. There is nothing in the bank's records to suggest Mr and Mrs R were told either that they wouldn't have to pay off their previous mortgage or that the interest rate would be automatically transferred. TSB followed its correct process in transferring the interest rate product onto the new mortgage. I'm therefore not upholding this part of the complaint.

Further advance: In March 2023 Mr and Mrs R contacted TSB about a further advance of £110,000. They were told that they would have to wait six months from the date of completion of the mortgage, which TSB incorrectly believed was December 2022, due to the internal remortgage with the product switch showing as having completed then, rather than the actual completion date of the purchase and mortgage in July 2022. The further advance was completed on 27 July 2022, on a rate of 5.14%.

TSB has acknowledged that at the time of the original application in March 2023 there was a lower rate of 4.34%, and TSB has offered to put the further advance on that rate, re-working the account accordingly. I think this is a fair way to put things right, because Mr and Mrs R could have applied for that rate in March 2023.

I've noted that Mr and Mrs R want TSB to apply the rate of 4.14% that they switched part of their mortgage onto in December 2022 to the further advance as well. But in December 2022 Mr and Mrs R wouldn't have been eligible for that rate on the further advance, as they'd only owned the property for five months at that time. By the time Mr and Mrs R actually applied for the further advance in March 2023, and were told incorrectly they needed to wait until July 2023, the lowest rate for which they were eligible was 4.34%. It wouldn't therefore be fair or reasonable for TSB to be expected to offer a rate for which Mr and Mrs R wouldn't have been eligible to apply.

Putting things right

TSB has acknowledged it made errors which, if they hadn't been made, would have meant that Mr and Mrs R would never have been offered a mortgage by TSB at all. I'm satisfied that TSB acted fairly when it agreed, a few days before completion in July 2022, to allow the mortgage to go ahead, notwithstanding this was outside lending criteria.

TSB acknowledged that its errors caused Mr and Mrs R considerable stress. The bank has offered £1,000 compensation, which I think is fair and proportionate in all the circumstances. I'm not ordering the bank to do anything further. If the compensation has already been paid, TSB is not required to do anything more in this regard.

I'm satisfied that TSB's offer to put the further advance on a rate of 4.34% and re-work the account accordingly is fair in all the circumstances. For the reasons I've given above, the rate of 4.14% would never have been possible for the further advance. If Mr and Mrs R accept this, they can either have any overpayments refunded to them, or have them applied towards reducing the capital balance on the mortgage.

My final decision

My final decision is that I partly uphold this complaint. I direct TSB Bank plc to settle the complaint as detailed above. 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 and Mrs R to accept or reject my decision before 4 March 2025.

Jan O'Leary
Ombudsman