DRN-5335245

The complaint

Mr M complains about how The Mortgage Works (UK) Plc (TMW) dealt with his applications for a term extension on his buy-to-let mortgage.

What happened

Mr M's buy-to-let mortgage was on a fixed interest rate of 1.99% until 28 February 2023. The mortgage term was due to end in October 2023.

In February 2023 Mr M applied for a term extension. The mortgage term needed to be extended before he could apply for a new interest rate product. There were delays at various stages of the application process and, in July 2023, TMW declined the application. It said the application had failed its affordability assessment.

In the meantime, the fixed interest rate on the mortgage had ended, and a variable rate of around 8% had applied since March 2023. As a result, Mr M's mortgage payments had increased significantly, from around £1,000 to around £4,000 a month.

Mr M made a complaint about how TMW had handled his application and the outcome of the application. On 9 August 2023 TMW sent him its final response. It offered him £75 for delays in processing his application, but it said it had reached the right decision not to grant the term extension.

In December 2023 Mr M re-applied for a term extension. TMW said that it usually based its affordability assessment on the current interest rate applying to the mortgage (so, a rate of more than 8% here) but, as an exception, it would use the two-year fixed interest rate product for which Mr M would be eligible if he were to select a new rate. At the time, that was 5.19%.

In March 2024 TMW declined Mr M's application. Mr M and his mortgage broker appealed. In April 2024 TMW re-assessed the application and this time approved it. The mortgage term was extended to 31 October 2033. Mr M then took a new two-year fixed interest rate of 4.24%. He also complained again to TMW about how it had dealt with his applications. He thought that his first application in 2023 should have been approved and, had it been, he said he wouldn't have had the extra costs of paying for two valuations and interest at a variable rate of more than 8% for over a year.

On 3 May 2024 TMW sent Mr M its final response. It apologised for having initially declined his second term extension application. It said this was because of a technical issue with its affordability calculators and wrong figures were provided. It refunded the cost of the second valuation, backdated the 4.24% interest rate product to 1 April 2024, and offered £350 compensation. It later paid Mr M £50 compensation separately.

On 21 June 2024 Mr M referred his complaint to us. Our Investigator concluded that we couldn't look into his complaint about the first term extension application, because he had referred it to us too late. She considered his complaint about the second application, and found that TMW had caused some avoidable delays. TMW said it would be prepared to apply a new interest rate product from 1 March 2024 instead of 1 April 2024, but the lowest two-year fixed rate that would have been available to Mr M at that time was 4.39% - higher than the rate he had got.

The Investigator recommended that TMW re-work Mr M's mortgage on the basis of the 4.39% fixed interest rate for the month of March 2024. She said it should also pay Mr M a total of £400 compensation as it had already offered.

TMW accepted that recommendation, but Mr M did not. He thought that, in the circumstances, we should be able to consider his complaint about the first application. He said, in summary, that it wasn't until April 2024, when TMW admitted there was an issue with its affordability calculators, that he could refer his complaint to us, since he didn't have the evidence to demonstrate TMW's negligence until that point. He also said that TMW had said he could re-apply for a term extension within the six-month deadline on the 2023 final response, and referring the complaint to us during that period would have prejudiced such an application. He asked for an Ombudsman's review.

I issued a decision to confirm what I can and can't consider in this complaint. I found that Mr M had referred his complaint about the first term extension application he made in 2023 too late, because he had done so outside the six-month time limit in TMW's August 2023 final response.

I concluded that I can look into Mr M's complaint about TMW's handling of his second application for a term extension which began in late 2023. This final decision is to set out my conclusions about that.

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.

There's no dispute that TMW made mistakes with Mr M's second application for a term extension. It had agreed to make an exception to its usual approach for assessing the affordability of the application, and to use a new fixed interest rate in its calculations instead of the much higher reversion rate that Mr M's mortgage was on because his previous fixed rate had expired. It has said that it then entered wrong information when initially assessing the application, and there was a problem with its affordability calculator applying the wrong 'stress test' which it didn't identify until later. TMW also caused some avoidable delays in the application process.

As a result, Mr M's second application was rejected when it shouldn't have been, and he experienced some unnecessary delay. His application was, however, ultimately approved and a term extension agreed and put in place. Mr M was then able to take a new fixed interest rate on the mortgage.

TMW has paid Mr M some compensation and has offered some further compensation. I need to decide whether it has offered a fair settlement or whether it would be fair and reasonable to require it to do any more to resolve this complaint.

Most of Mr M's claim for loss arises from the outcome of his first application for a term extension in 2023; had that application been approved he says he would have been in a position to take a new fixed interest rate product on the mortgage much sooner and wouldn't have had to pay interest at the much higher variable rate for as long as he did. However, I can't consider the claim for losses arising from the first application because, for the reasons I explained in my previous decision, I can't consider Mr M's complaint about that. I can only consider his complaint about the second application and any award or direction I make can only be in respect of that second application.

In all the circumstances, I find that TMW's offer to put things right goes further than I can reasonably require. TMW has already backdated the 4.24% fixed interest rate product Mr M chose to 1 April 2024 and, following our Investigator's involvement and further delays in its handling of the application having been identified, it has offered to backdate a rate to 1 March 2024.

However, the closest like for like interest rate product for which the mortgage would have been eligible for a start date of 1 March 2024 is higher than 4.24% - it is a two-year fixed rate at 4.39%. TMW has offered to backdate the 4.39% interest rate to 1 March 2024, and I think that's fair.

TMW has also told us that it would be prepared to apply the 4.39% rate for the month of March 2024 only, and Mr M can keep the existing 4.24% fixed rate from 1 April 2024 if he wishes. It would then refund the additional interest he paid over and above 4.39% in March 2024, plus annual simple interest of 8% on the refund. I consider that this part of TMW's offer goes further than I can reasonably require. Had Mr M gone ahead with the 4.39% fixed rate from 1 March 2024, he couldn't then have switched to the lower 4.24% fixed rate from 1 April 2024 without paying an early repayment charge (ERC). So he would have had the higher 4.39% fixed rate on the mortgage in place for two years – unless he paid an ERC to bring that rate to an end – instead of the 4.24% fixed rate he has got. It's therefore likely to be cheaper for Mr M in the long run to keep the 4.24% fixed rate, and the interest saving in doing so will outweigh the extra cost of having paid interest at the much higher variable rate instead of the rate of 4.39% for the month of March 2024. TMW has also already refunded the valuation fee Mr M paid in the second application, so there's no need for me to consider making any award for that.

TMW has offered Mr M a total of £400 compensation for non-financial loss in connection with this complaint and, in all the circumstances, I think that's fair and reasonable. It's clear that Mr M experienced frustration, inconvenience and upset as a result of TMW's mistakes with his second term extension application, and I consider £400 is fair in recognition of that.

Finally, I've noted what Mr M has said about TMW having failed to comply with the Consumer Duty. However, his mortgage is a buy-to-let mortgage and is therefore not a regulated mortgage contract – and so the Consumer Duty doesn't apply to it.

My final decision

My final decision is that The Mortgage Works (UK) Plc should:

- apply the 4.39% two-year fixed interest rate to Mr M's mortgage with effect from 1 March 2024 and re-work the mortgage on that basis; and

- pay Mr M a total of £400 compensation (it may deduct from this sum compensation it has already paid in respect of this complaint).

Mr M may decide to accept the payment of compensation and not the revised interest rate if he wishes; if he accepts either then he is not required to accept both.

TMW has offered to refund the interest Mr M paid on his mortgage over and above a rate of 4.39% in March 2024, plus annual simple interest of 8% on the refund. I don't require TMW to make this payment, and Mr M should contact TMW directly if he now wishes to accept this.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr M to accept or reject my decision before 18 March 2025.

Janet Millington
Ombudsman