

The complaint

Mr M and Miss S's complaint is about a mortgage broker, The Mortgage Exchange Ltd (TME). Mr M, who has dealt with the complaint throughout, says that poor service by TME led to their mortgage application being declined by the lender, a high street lender I will refer to as NW.

Specifically, Mr M says that the application was declined by NW because:

- TME failed to ask NW its requirements when Mr M changed his job during the application process and/or deliberately withheld information from NW about this;
- TME increased the loan amount without their knowledge, which triggered a NW to re-score the application, resulting in the decline.

Mr M and Miss S subsequently arranged another mortgage through another broker and with a different lender, but at a higher rate of interest. The new mortgage completed on 27 November 2024.

Mr M and Miss S would like TME to compensate them for the additional interest they are now paying on their new mortgage over the two-year fixed rate term, plus the broker fee they paid of £2,495, as well as interest they paid on their previous mortgage and unsecured credit until their new mortgage completed, and be paid the £1,995 broker fee that TME waived.

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, TME has already acknowledged it made an error and agreed to waive its broker fee of £1,995. Therefore what I need to decide is whether this is sufficient, or if there is anything further TME needs to do to put things right.

Finally, our decisions are published, so it's important I don't include any information that might lead to Mr M and Miss S being identified. So for these reasons, I will instead concentrate on giving a brief summary of the complaint detailing the issues I consider to be the most relevant, followed by the reasons for my decision, rounding up the figures for convenience.

Briefly, in June 2024 Mr M and Miss S asked TME to arrange a new mortgage for them on the property they already owned. They wanted to pay off the existing mortgage on the property (£112,000 – which later increased to £116,000), pay off loans and credit cards totalling £94,300 and raise £52,300 to build an extension on the property. The total loan amount, based on an estimated valuation of £325,000 was originally £260,485 at a loan to value (LTV) of 80%.

However, the valuation came back at £330,000, and the application was amended for a loan amount of £264,000 (plus a £995 product fee), based on an 80% LTV.

At the end of July 2024 Mr M was made redundant from his job, but quickly found another. TME asked him to provide his contract of employment, as it said NW would need to see this. However, what NW actually needed to see for a change of employment during an ongoing mortgage application was the first payslip. There was a three-week gap between Mr M leaving his previous employment and starting his new employment, which TME says it didn't become aware of until later.

TME has acknowledged that it made an error in relation to not realising NW would need to see a payslip. Mr M says this is why the application failed. TME's position is that the application failed for other reasons. Again, I will address this later.

NW wanted information about the work to be carried out, to ensure its security was fully protected and that the property would remain mortgageable during the course of the building works. Although Mr M and Miss S had provided a spreadsheet of the costings, this was insufficient for NW's purposes. However, on 31 July 2024 Mr M confirmed that *"monies had already been paid to the builder as part of the quote that had been sent"*. Mr M said that the only changes made to the property was a loft dormer, which was almost complete, with just plasterboard to go up, skimming and an ensuite to be installed, turning the property from a 3-bedroom to a 4-bedroomed.

TME was confused by this, because it had understood that the capital raising was for further home improvements – an extension to the property.

On 1 August 2024 NW explained it wanted fully detailed builder/architect's plans and quotes for the proposed home improvements to be completed with the £52,300 being raised, evidence of any planning permission (if required), confirmation of contingency plans including over-run costs, confirmation of the borrower's contribution towards the work and confirmation the property would remain habitable during the improvements.

On 14 August 2024 Mr M confirmed he would provide the schedule of works *"before the week's end"*. On 20 August 2024 Mr M provide a quote for a 3m by 5m extension with a new kitchen, with a 10-15% contingency. He said no planning permission was needed as this fell within permitted development.

On 28 August 2024 NW repeated its request for detailed plans and quotes for the extension. NW said the quote provided wasn't on headed paper, didn't confirm whether or not VAT was included and there were no plans. Mr M confirmed to TME the same day that he'd try to get an amended quote by the end of the week or the following Monday (1 September 2024).

On 29 August 2024 Mr M said he was waiting for a revised quote from the builder and that architect's plans would be provided. However, Mr M also said that he was hoping to discuss other ways of releasing equity, as he wanted a family holiday and a larger car. *"Before we explore these options needed to know if [NW] are ok with these other reasons for lending and I also feel they will be easier to produce evidence for."* TME said that NW will consider alternative reasons for borrowing but would need an explanation for the change, as well as future plans about the extension.

Mr M said that since the loft conversion had been done the house was big enough and so he and Miss S had decided to buy a car for about £47,000 and go on holiday, so would still be looking at borrowing at an 80% LTV. Mr M asked TME to send him quotes for this.

TME replied to say that the full amount of equity release would be £54,227. This is because TME had already agreed to waive its fee of £1,995, which would have been paid out of the surplus mortgage funds.

On 30 August 2024 Mr M reiterated that he needed the full 80% LTV in order to buy a new car and have a family holiday.

On 3 September 2024 TME issued new mortgage illustrations for the £264,000 mortgage, for both two-year and five-year fixed rates.

NW was informed of the change in borrowing requirements. This triggered NW re-scoring the application, which failed a credit score on 5 September 2024. TME asked NW if the application would be approved on the previous amount requested, £260,485, but NW said that this had also failed, because of the credit score.

Mr M and Miss S went to another broker and were able to obtain a mortgage, albeit with a second-tier lender at a higher interest rate, and with a broker fee of £2,495.

Mr M complained, saying that the reason for the application not proceeding was entirely down to the failures on the part of TME in relation to its failure to check NW's payslip requirements, and in changing the borrowing amount without consent. TME accepted its error in relation to the payslip, but not the increased borrowing. TME said that this wasn't the reason the application had been declined by NW.

Dissatisfied with TME's response, Mr M and Miss S brought the complaint to our service. An Investigator looked at what had happened, but didn't think TME was responsible for the application being declined. Mr M disagreed and asked for an Ombudsman to consider 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.

Having done so, I've reached the same conclusion as the Investigator, for broadly the same reasons.

The evidence in the case is detailed, running to several hundred pages of documents and numerous telephone calls. I've read everything, and it's apparent that some parts of the evidence are less relevant to the underlying case than others. There are also a lot of duplicated documents and repetition of arguments. In what follows, I have, by necessity, summarised events in rather less detail than has been presented.

No discourtesy's intended by that. It's a reflection of the informal service we provide, and if I don't mention something, it won't be because I've ignored it. It'll be because I didn't think it was material to the outcome of the complaint. This approach is consistent with what our enabling legislation requires of me. It allows me to focus on the issues on which I consider a fair outcome will turn, and not be side-tracked by matters which, although presented as material, are, in my opinion peripheral or, in some instances, have little or no impact on the broader outcome.

The payslip issue: TME has accepted that it should have checked NW's requirements in relation to payslips. However, I note NW's intermediaries' portal says, in relation to changes in employment:

"Where the customer is expecting a pay rise or a pending incentive payment (e.g. bonus) or they are changing their job within the next 3 months, we can accept an employer's letter or contract to confirm the new income in lieu of latest month's payslip."

The portal does say that NW “may” require current payslips to evidence income, and when an application is submitted, the portal will confirm how many payslips are needed.

From the email chain between Mr M and TME, it appears TME wasn’t initially aware of the three-week gap in Mr M finishing his old job and starting the new one. However, once TME was aware of this, NW was told and its notes say *“Agreed to consider the 4 week gap between roles however as broker declared is a better paying job – garden leave is entitlement. Will require 1st p/s and employer contract to verify new job has been started”*.

Therefore, whilst NW didn’t require a payslip in every case, it did in this one, and this is where TME dropped the ball, because it didn’t make this clear to Mr M. As a result, TME agreed to waive its broker fee of £1,995, which would have been payable out of the surplus funds after payment of the existing mortgage and unsecured credit, thereby increasing the funds available to Mr M and Miss S by £1,995.

Was the loan amount increased without consent? I’m satisfied after reviewing the contemporaneous documentation that, once the valuation came back at the higher amount, Mr M gave clear instructions to TME that he wanted to proceed at the full 80% LTV. TME issued illustrations for this, on both two-year and five-year fixed rates. I’m therefore not persuaded that this change was made without the knowledge or consent of Mr M and Miss S.

Decline of the application: The increased amount triggered NW to re-score the application, and it failed a credit score. Mr M’s argument is that, but for TME increasing the loan amount without his knowledge, the application would have gone ahead.

As I’ve said above, I’m satisfied TME increased the loan amount on the instructions of Mr M. It was reasonable for NW to re-score the application, particularly as by the time it did on 5 September 2024 the entire purpose of the additional capital raising had changed, from home improvements to consumer spending.

Credit scoring is a statistical analysis used by lenders to help determine the risk to the lender of offering credit to a customer. It is not simply based on income and previous credit history but is far more nuanced than that. A credit scoring algorithm is a sophisticated analytical tool which takes into consideration various components relevant to an application. Whilst this does include payment history, income and the way existing credit has been serviced, it also includes risk categories.

Therefore, whilst borrowing for home improvements that are intended to enhance the value of the mortgaged property might allow an application to be approved, borrowing for consumer spending – particularly where, as in this case, the amount is substantial, over £50,000 – will result in a different risk profile.

I can’t comment on whether or not NW’s decision to decline the application was reasonable, because this complaint isn’t against NW. However, there had been a material change in the reason for the borrowing which I think is likely to have been a relevant factor.

Conclusion

Other than the issue with the payslip, I’m unable to find TME has done anything wrong. The contemporaneous documentation satisfies me that the change to the borrowing was at the request of Mr M. The consequences of this – a re-scoring of the application by NW – isn’t something for which TME is responsible.

TME agreed to waive its non-refundable fee of £1,995, which I think is fair and reasonable in all the circumstances. I can find no basis on which I could reasonably order TME to do anything further. That's because the payslip error was not the reason for the application being declined. As I've found no other error by TME, I'm not ordering it to do anything further.

I note Mr M and Miss S paid a broker fee of £2,495 for the arrangement of their mortgage with another lender, and that this mortgage is at a higher interest rate than the mortgage they'd wanted with NW. However, Mr M and Miss S were given advice by their own broker about their new mortgage. If they are dissatisfied about the product they were advised to take out, they'll need to raise this with their new broker.

My final decision

My final decision is that I don't uphold this complaint.

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 M and Miss S to accept or reject my decision before 6 June 2025.

Jan O'Leary
Ombudsman