

The complaint

Mr and Mrs E and Mr E1 and Mr E2 complain that Bank of Scotland plc (BOS) declined their mortgage application unfairly. They also complain that BOS reported the new mortgage on their credit files despite it not being granted.

What happened

Mr and Mrs E have an interest-only mortgage with BOS of around £500,000. The mortgage term ended some time ago.

In May 2024 Mr and Mrs E and their sons, Mr E1 and Mr E2, applied to BOS for a new interest-only mortgage over a five-year term to repay Mr and Mrs E's existing mortgage. Mr and Mrs E wanted to add Mr E1 and Mr E2 to the mortgage in order to make it affordable, and said they would repay the mortgage by selling the mortgaged property.

Mr and Mrs E and Mr E1 and Mr E2 have said that they pre-qualified for the new mortgage and their application met BOS's lending criteria. They received a mortgage illustration. But on 29 May 2024 BOS sent a letter declining their application. It said that it had made this decision based on their credit score.

Mr and Mrs E and Mr E1 and Mr E2 asked BOS to reconsider. BOS didn't change its mind and said its requirements in terms of credit score and affordability hadn't been met. Mr and Mrs E and Mr E1 and Mr E2 complained that BOS had made mistakes, its decision was unfair and unjustified, and that it was reporting the new mortgage on their credit files. BOS said it hadn't done anything wrong, it had made the right decision, and it was reporting Mr and Mrs E's existing mortgage – not a new mortgage – to credit reference agencies.

Mr and Mrs E and Mr E1 and Mr E2 referred their complaint to us. Our Investigator concluded that BOS should have identified before the mortgage application was submitted that it was unlikely to be approved. She recommended that BOS pay Mr and Mrs E and Mr E1 and Mr E2 £400 compensation and remove the searches in connection with the application from their credit files.

BOS agreed to the Investigator's recommendation but said that it didn't agree with all of her conclusions. In particular, it said that the application was close to meeting its criteria on initial inspection and it was right to have an underwriter assess a full application. It accepted however that it could have been clearer with Mr and Mrs E before they applied that an application may not succeed.

Mr and Mrs E and Mr E1 and Mr E2 didn't accept the Investigator's recommendation and asked for an Ombudsman's review. They still considered that BOS's application process was flawed and their credit histories and joint incomes were more than enough to have met its lending criteria.

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 concluded that I can't fairly require BOS to do or pay more than it has already offered to resolve this complaint. I'm satisfied that it was entitled to decline Mr and Mrs E's and Mr E1's and Mr E2's mortgage application and that it did so fairly.

BOS, in common with all UK mortgage lenders, has criteria which it expects applicants to meet if it is to approve a mortgage application. Those criteria change from time to time and many of them are commercially sensitive and are not therefore made publicly available. That's neither unreasonable nor unusual. BOS didn't have to give Mr and Mrs E and Mr E1 and Mr E2 detailed reasons for its decision to decline their application. It did however tell them that their credit scores and the affordability of the proposed new mortgage were the basis for its decision.

Mr and Mrs E and Mr E1 and Mr E2 have taken issue with this – they have pointed to their excellent credit scores with one of the main credit reference agencies and their combined annual income of around £145,000. Mr and Mrs E also have a loan to value ratio well below 50%.

However, as BOS explained in its final response letter, in referring to “credit scoring” it does not just mean what is recorded on an applicant's credit file with credit reference agencies. It also means the other information which is provided to it in an application and what it already knows about an applicant if they're an existing customer. So a credit score of 999 with a particular credit reference agency, for example, won't automatically mean that an application for credit will succeed. A mortgage lender won't only look at an applicant's general credit position but will also look at factors it considers particularly relevant to a mortgage application. That is appropriate and reasonable.

Similarly, Mr and Mrs E's and Mr E1's and E2's overall annual income and the fact that it exceeded BOS's threshold of £100,000 for the type of interest-only borrowing they wanted doesn't necessarily mean that BOS should have approved their application. Their income was just one part of their overall financial circumstances.

I've looked very carefully at BOS's records of its assessments of Mr and Mrs E's and Mr E1's and Mr E2's application. They show that an underwriter reviewed the application twice and that their key concerns included whether the proposed new mortgage would be affordable. Of the four applicants, Mr E1 had by far the highest income from employment with an annual salary of just under £60,000. However, he didn't live in the mortgaged property and was paying rent of just under £1,200 a month plus his own other living expenses.

BOS also noted that Mr E had unsecured debts of more than £50,000, some of which were included in a debt management plan (DMP). While that plan had been running for many years, it was still a relevant consideration, as were payments to other debts. I don't consider that how BOS recorded the DMP or other payment arrangements on the application is material to the outcome of this complaint, given that it's clear from BOS's records that it knew the “Y” recorded in a particular box on the application was because of Mr E's DMP and not because of any bankruptcy, IVA or debt relief order. I'm satisfied that it assessed the application on the basis of the right information.

To grant the mortgage, BOS needed to be satisfied that Mr and Mrs E and Mr E1 and Mr E2 would be able to afford it. It wasn't satisfied about that, even taking account of income from all applicants as far as it could – having initially assessed the application on the basis of the highest earning applicants, Mr E and Mr E1, but later including the other applicants' income as well. In making its assessment it had also to consider how higher interest rates might affect the monthly payments for the new mortgage which was to be on a variable rate.

Having considered BOS's records of the application and in all the circumstances, I don't find that its decision not to agree the mortgage was unfair. I find that it treated Mr and Mrs E and Mr E1 and Mr E2 fairly in reconsidering their application when they appealed and taking account of the further information they provided. There was never any guarantee that BOS would approve the application and nothing either party has said persuades me that BOS suggested otherwise at any point before or during the application. The mortgage illustration was clear that BOS wasn't bound to grant the mortgage set out in the document.

I don't consider that BOS has misrepresented the position of the application on Mr and Mrs E's credit files. The excerpts Mr and Mrs E have provided of their credit files show a mortgage with BOS because that is what they have. Their existing mortgage is showing, not the one they applied for with their sons. BOS updates the report every month when payments fall due. That doesn't mean it has reported a new mortgage, and I'm satisfied that it hasn't – as demonstrated by the start date of the mortgage on their credit files, which is shown as 6 December 2001.

In deciding this complaint I have kept in mind the background to this complaint and the need for Mr and Mrs E to repay their existing BOS mortgage, the term of which ended several years ago, as well as what BOS knew about their and their sons' financial situation from their early discussions and what it knew about its own lending criteria. I think that BOS could have been clearer with Mr and Mrs E and Mr E1 and Mr E2 about the chances of their application being declined before they submitted a full application. They could then have made a more informed decision about whether to proceed with the application.

BOS has agreed to remove any credit searches it recorded in connection with this mortgage application and pay Mr and Mrs E and Mr E1 and Mr E2 £400 compensation. I consider that is fair and reasonable in all the circumstances in recognition of the inconvenience and disappointment they've been caused. They haven't lost out financially because BOS did anything wrong and I find no basis on which I can fairly require BOS to do any more than it has offered.

My final decision

My final decision is that Bank of Scotland plc has made a fair offer. In full and final settlement of this complaint it should pay Mr and Mrs E and Mr E1 and Mr E2 £400 and remove any credit searches it has recorded in connection with their mortgage application from the records of any credit reference agencies it has reported to.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E, Mrs E, Mr E1 and Mr E2 to accept or reject my decision before 18 August 2025.

Janet Millington
Ombudsman