

The complaint

Miss J complains that NATIONAL WESTMISTER BANK PUBLIC LIMITED COMPANY:

- Unfairly declined her application to switch her mortgage from a buy-to-let into a residential mortgage.
- Incorrectly recorded adverse information on her credit file.

What happened

Miss J had a buy-to-let mortgage with NatWest. In February 2023, Miss J applied to remortgage the property on a residential basis as she wanted to live in the property. But NatWest declined the application. She does not consider NatWest considered the application fairly.

In June and July 2024, NatWest recorded late or missed payments on her credit file. NatWest agreed to remove that information.

I issued a provisional decision where I proposed to uphold the complaint about the credit file. My provisional findings, which form part of this decision, were:

Lending decision

Miss J had a buy-to-let mortgage with NatWest. It is not a regulated product. So MCOB did not apply to it. While Miss J is correct that in some circumstances lenders could waive certain checks for existing borrowers who wanted to make changes to their mortgage, that did not apply to buy-to-let borrowers – even if they wanted to change to a regulated residential mortgage.

I do not think Miss J is a “mortgage prisoner”. The FCA defined that as someone with a residential mortgage not a buy-to-let, who despite being up to date with payments is unable to switch to a new mortgage deal. And Miss J did not want a new deal, she wanted a completely different type of mortgage. So the fact that NatWest would not give her a residential mortgage would not make her a “mortgage prisoner”. And whether she was one or not make very little difference to my assessment of whether NatWest has treated her fairly or reasonably.

MCOB did apply to the application for the residential mortgage. But NatWest would only be required to apply the rules for a new borrower. The fact that Miss J had an existing buy-to-let application would not be relevant to its consideration.

Under MCOB NatWest was required to assess whether the mortgage was affordable, taking into account Miss J’s income and expenditure and potentially apply a stress test to future payments. Miss J has said that NatWest was wrong to ask her about any rental income. But it was entitled to do so and that was a relevant consideration when thinking about if the proposed mortgage was affordable or not.

NatWest has limited information about Miss J's application and the reasons it was declined. Its notes merely say that it "failed affordability". It is unusual in my experience for a lender not to be able to provide more detail than that.

NatWest said it considered Miss J's track record of managing her finances, carried out an affordability assessment and undertook a credit scoring exercise. I understand that usually that information would be assessed automatically to begin with and an initial ending decision made.

Miss J said she was told that she "had to pay off £20,000" before she could get a mortgage. Presumably that meant NatWest felt the existing borrowing was unaffordable based on the information Miss J had given.

In all the circumstances, I do not consider that I have enough information to say that the decision was made unfairly. It seems more likely than not that it was based on the information Miss J gave NatWest and the automated decision it made. I note that Miss J told us she was declined by another lender at the same time.

While Miss J might have been able to get a residential mortgage in 2024 when her circumstances were largely the same as in 2023, that does not mean there has been any error. Each lender is entitled to have its own lending criteria and appetite for risk – and it is likely that affordability considerations were different.

As I said, however, it is unusual and out of line with good industry practice for NatWest to be unable to provide any more detail than it has about why the application was declined or what information it used to make that decision. I accept that might be due to the passage of time.

And in saying that, I can also see there was some discussion between Miss J and NatWest at the time in question regarding the declined decision – and Miss J's recollections suggest that she was given some more detail than just that NatWest was not satisfied the new mortgage would be affordable

Overall, in the circumstances of this case I do not consider that I could say that NatWest acted unfairly or unreasonably when declining Miss J's application.

Credit file

In its final response, NatWest accepted that it had recorded late or missed payments on Miss J's credit file in June and July 2024 and arranged for it to be removed. It appears to have done so reasonably quickly.

But Miss J has been caused avoidable distress and inconvenience because of that. She had the worry that NatWest was recording inaccurate information on her credit file and the trouble of putting it right. I consider NatWest should pay her £200 to reflect that,

NatWest did not respond to my provisional decision. Miss J responded to make a number of points, including:

- She did not accept the award of £200. She said if the complaint about the credit file is upheld then NatWest should pay the awarded compensation to a charity.
- Even if the buy-to-let mortgage was unregulated NatWest should still follow the FCA's Principles for Businesses including Principle 6 to pay due regard to its customers interests and to treat them fairly. It is unfair for a regulated business to maintain lesser standard for unregulated activities than for regulated ones. It is our role to determine

what is fair and reasonable in all of the circumstances of the case, so we should consider if it has treated her fairly in line with that, whether MCOB applied or not.

- She is an individual landlord not a micro-enterprise. That “misclassification” potentially diminishes the level of consumer protection she should receive. She was an individual dealing with a highly sophisticated financial institution.
- NatWest did not have the absolute right to set its own lending criteria – it must be exercised fairly and transparently. The lack of detailed information from NatWest means it is impossible to verify if its own criteria was applied consistently or fairly or based on an objective review. The fact that her circumstances were largely the same in 2024 when another lender offered her a mortgage highlights the questionable nature of NatWest’s decision.
- NatWest’s failure to keep proper records impedes a fair assessment. Without that information the specific reasons for the decline beyond affordability it is impossible to say whether the decision was fair, reasonable or in line with its lending criteria. The passage of time does not remove NatWest’s responsibility to maintain adequate records.
- Her situation where she wanted to switch from a buy-to-let to a residential mortgage while being “trapped” on the standard variable rate (SVR) means that she is a “mortgage prisoner”. Her complaint is that she was unfairly prevented from accessing an affordable mortgage from her existing lender. The detriment was being stuck on SVR due to an inability to switch, despite being up to date with payments.
- NatWest’s own “mortgage prisoner hub” shows that it regards unregulated mortgages as mortgage prisoners.
- It was wrong for me to assume that the demand for the mortgage to be reduced by £20,000. Such a demand without clear, documented justification is consistent with fair and transparent lending practices. My assumption that she was not financially viable is not supported by the facts. She is credit worthy and for example has a low credit utilisation
- We should acknowledge that the fine given to NatWest as part of the circumstances when assessing NatWest’s conduct and culture.
- The failure of NatWest to offer her a mortgage left her open to exploitation by a mortgage broker.

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.

Whether Miss J was a micro-enterprise or not is not relevant to my decision. She has brought this complaint as a consumer – that was the basis on which she was applying for the residential mortgage.

Miss J held an unregulated buy-to-let mortgage. I agree that the FCA’s Principles for businesses applied to NatWest for that product. And she was applying for a residential mortgage – so the principles and MCOB applied to the new application.

I agree that businesses should not necessarily apply lesser standards to unregulated rather

than regulated products. But the fact a product is “unregulated” means that specific regulations do not apply to it. For example, a lender is required to undertake an assessment of income and expenditure and obtain evidence of income before granting a residential mortgage. There is no such requirement for a buy-to-let mortgage.

When NatWest gave Miss J a buy-to-let mortgage it was not really concerned with whether Miss J could personally afford it. Rather its assessment was based on whether the property could generate a rental income that could sustain the mortgage. It follows, that there could be no automatic assumption that Miss J would qualify for a residential mortgage just because NatWest had given her a buy-to-let mortgage. NatWest would always be required to carry out a much more detailed and thorough affordability check before deciding whether to give her a residential mortgage.

it would not be fair or reasonable for NatWest to approve an application for a switch from a buy-to-let to residential mortgage without carrying out appropriate checks on income, expenditure and affordability.

It is for any lender to set its own lending criteria – as long as it is in line with MCOB, particularly in respect of affordability. Just because another lender was prepared to give Miss J a mortgage in 2024, does not mean that NatWest’s decision in 2023 was wrong. That reflects that different lenders will have different appetites for risk. And it is likely the stress tests applied by lenders will vary over time.

I have no reason to dispute that Miss J is creditworthy. But her ability to obtain unsecured debt and her low credit utilisation does not necessarily support that a mortgage lender would approve a mortgage application from her.

Miss J’s application was declined at an early stage. Like many lenders NatWest uses an automated system to assess applications at that stage, before submitting a full application. Most lenders are able to provide evidence to show why such an application was declined – although they may not retain that information for very long if the application is unsuccessful. So it would not necessarily be unusual for a lender not to be able to give much detail about the reasons why it declined an application more than six months ago. NatWest can’t obtain any information about why such an application was declined. It is not clear if that is because of system limitations or the passage of time. But in either case it does not automatically mean that it has acted unfairly or that its decision was wrong.

Where there is a dispute about what happened or information is incomplete, I have based my decision on the balance of probabilities – in other words, on what I consider is most likely to have happened in the light of the evidence.

Miss J said she was told she’d have to reduce the mortgage by £20,000 to proceed and that she didn’t “fit affordability”. It seems more likely than not that NatWest thought the amount she wanted to borrow was unaffordable. I can’t see why a mortgage lender would require the balance to be reduced unless it had concerns about affordability, bearing in mind Miss J had a relatively low loan-to-value. I would add that Miss J said another lender told her the same thing around the same time.

On balance, I consider it more likely than not that NatWest had concerns about the affordability of the new mortgage. It is likely that was reflected in the automated decision to decline the application. Although there are a number of other variables that can feed into its overall credit scoring.

Ultimately, while I understand Miss J’s concerns about the lack of evidence here, I do not have enough evidence to say that the decision reached by NatWest was unfair. The

evidence we have supports that the decision to decline the application was likely due to affordability. There is no persuasive evidence of a mistake by NatWest. And Miss J's recollection suggests there was a more detailed discussion around the reasons why the application was declined at the time in question.

As I said in my provisional decision, whether Miss J met the definition of a "mortgage prisoner" or not was not relevant to my decision. But I do not agree with her interpretation. It would only apply to holders of residential mortgages – not buy-to-lets. And as far as I can see there were no real barriers to Miss J remortgaging on a buy-to-let basis. I would add that NatWest's "Mortgage Prisoner Hub" that Miss J has referred to says *"Can a Buy to Let mortgage be processed under Mortgage Prisoner policy? No. This policy only applies to residential mortgages"*

NatWest is only required to pay the compensation I have awarded if Miss J accepts my decision. If she does so then she is free to do whatever she wants with the money. If she rejects the decision then she can take legal action against NatWest if she wishes.

My final decision

My final decision is that NATIONAL WESTMINSTER BANK PUBLIC LIMITED COMPANY should pay Miss J £200.

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

Ken Rose
Ombudsman