

The complaint

Mr and Mrs M complain that The Co-operative Bank PLC misled them and caused delays before unfairly declining their request for additional mortgage borrowing. Mr M asks that The Co-op compensates them for the cost of repaying unsecured loans early and pays compensation.

What happened

Mr and Mrs M have a mortgage with The Co-op. Mr M contacted The Co-op in mid-2024 about taking out additional mortgage borrowing to help one of their children buy a property.

Mr M says he was told on the initial call they'd be able to borrow the amount they wanted if they repaid some loans. They repaid the loans, incurring early settlement costs of about £560, and submitted an application to The Co-op. After reviewing the application, The Co-op said it would only lend about £53,000. It said the amount Mr and Mrs M wanted to borrow didn't meet its affordability criteria. Mr M says The Co-op didn't assess their income and outgoings fairly.

Our investigator said The Co-op had assessed the application fairly and given Mr and Mrs M correct information. While the application took a long time this was due to The Co-op needing additional information from Mr and Mrs M. Our investigator said The Co-op hadn't told Mr and Mrs M to repay loans.

Mr M didn't agree. He said they could comfortably afford the repayments with the additional borrowing. He said because The Co-op declined to lend they had to sell investments and buy a property for cash.

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.

Mr and Mrs M have three complaints about how The Co-op dealt with their application for additional borrowing. That it told them to repay unsecured debts. That it took too long to make a lending decision. And that it unfairly declined to lend the amount they wanted.

Did The Co-op tell Mr and Mrs M to repay their unsecured debts?

I've listened to a recording of Mr M's call with The Co-op's mortgage advisor on 4 June 2024, when he says he was told to repay personal loans.

Mr M told The Co-op they wanted to take out additional borrowing to help one of their children buy a property at auction. The Co-op's mortgage adviser said the first step is to establish affordability and how much they can borrow.

Mr M said he and Mrs M had each taken out personal loans (in total about £55,000) which they'd intended to use to buy a property at auction. They were out-bid at the auction and still had the funds in a savings account. Mr M said they wouldn't need these loans if they took

out additional mortgage borrowing.

The Co-op's mortgage adviser said she'd have to check this internally, as The Co-op doesn't offer additional lending for debt consolidation. Mr M said if The Co-op confirmed affordability they'd contact the unsecured lenders and repay the loans. He said the additional borrowing was a replacement for the loans. The mortgage adviser said she understood the position but needed to check internally. Mr M said he also had zero percent finance for the purchase of household goods. And car finance for a business asset which was paid for by his business.

The mortgage adviser put Mr M on hold while she checked the position with an underwriter. After doing so, she said because of The Co-op's policy not to lend for debt consolidation, it couldn't lend to pay off debt. It said the maximum additional borrowing it could offer was about £67,000. The advisor said this didn't even factor in the two personal loans which Mr M had said they intended to repay. The mortgage adviser said if all of Mr and Mrs M's existing outgoings were taken into account, it couldn't offer any additional lending.

Mr M said they'd repay the personal loans and talk to their broker about taking out a second charge loan, and remortgage in two years' time when their mortgage product expires.

The Co-op said the broker was the right person to advise them about what's available, which lenders offer debt consolidation or if a second charge loan is the right way to go.

In summary, The Co-op said additional borrowing was unaffordable due to Mr and Mrs M's outgoings and credit commitments. It wouldn't lend if the funds were used to repay unsecured debts. The application couldn't proceed while the loans were outstanding.

Mr M asked what the position would be if they repaid their debts. The Co-op said if they provide evidence the debts were cleared and an explanation as to why they'd taken them out, plus evidence that the car finance was paid for by Mr M's business it could assess affordability on that basis. On that basis, it said it could offer about £112,000.

I think it was fair for The Co-op to explain why it couldn't offer the additional borrowing Mr and Mrs M wanted. It provided information about the amount it might be able to lend if Mr and Mrs M didn't have any outstanding credit commitments – this was in response to Mr M asking for this. That's not the same as The Co-op telling Mr and Mrs M to repay their loans, or guaranteeing it would lend if they did. I think it was fair for The Co-op to give information to Mr M, so that Mr and Mrs M could discuss their options with their broker and decide what to do.

I don't think it's fair and reasonable to require The Co-op to compensate Mr and Mrs M for their costs related to repaying their personal loans early.

Was The Co-op's decision not to lend the amount Mr and Mrs M wanted to borrow fair?

In September 2024 The Co-op told Mr and Mrs M the maximum amount it could lend was about £54,000 due to affordability. It said Mr M's SA302 (his tax calculation) for the tax year 2023 to 2024 showed lower income than he'd declared, and less than the previous year.

Mr M says this wasn't assessed fairly. He provided a letter from his accountant saying that the cost of an asset bought for Mr M's business in late 2023 was eligible for a 100% deduction against his income for tax purposes. This significantly reduced Mr M's taxable income for the tax year 2023 to 2024. The accountant said this didn't affect Mr M's actual income available to service loans. The Co-op said its decision about the amount it would lend didn't change.

Lenders are entitled to make a commercial decision about their internal policies and criteria, including what evidence they require to verify income. Each lender has its own criteria, so another lender might have assessed Mr and Mrs M's application differently. But I do understand the points made by Mr M, and why he feels The Co-op's decision was unfair.

We asked The Co-op for more information about its lending criteria and how it assessed affordability. It provided this in confidence. While this might be little consolation to Mr and Mrs M, I think The Co-op did consider the matter carefully, taking the context into account, and applied its lending criteria fairly. I can't fairly find, in the circumstances, that The Co-op should have waived its lending and affordability criteria and offered Mr and Mrs M the amount they wanted to borrow.

It seems Mr and Mrs M have raised funds in other ways. But if they did make a new application The Co-op would be able to review the application with Mr M's latest (2024 to 2025) SA302 and without the issues regarding the unsecured loans.

Did The Co-op cause unfair delays with Mr and Mrs M's application?

Mr M contacted The Co-op in late May 2024. The Co-op gave Mr and Mrs M a lending decision in late September 2024. While I understand Mr and Mrs M's frustration, I don't think The Co-op caused unnecessary delays.

Mr M spoke to The Co-op's mortgage adviser on 4 June 2024. At the end of the call, Mr M said he'd consider his options.

Mr M contacted The Co-op again and an application was submitted in early July 2024. The underwriters asked for more information. In particular, evidence as to how the personal loans had been paid off, and that the car finance was paid for by Mr M's business and what effect this had on his business profits. The Co-op was satisfied with most of the information provided. But said it needed Mr M to provide his SA302s (his tax calculation) as his business accounts and self-assessments weren't sufficient to verify his income.

The Co-op tried to contact Mr M in mid-August 2024, and left a voice message and email. It received an email from Mr M stating his turnover and net profit for tax years 2023 and 2024, but not the SA302s.

Mr M provided his SA302s on 19 September 2024. The Co-op said Mr M's income for the tax year 2023 to 2024 was lower than he'd declared. In late September 2024 it said the maximum amount it would lend was about £54,000. Mr M's accountant provided a letter explaining why his income was higher than the SA302 suggested. The Co-op considered this and confirmed its decision was unchanged.

Mr M said the documents he provided matched the income he gave The Co-op on the first call with the mortgage adviser on 4 June 2024. I can't fairly agree with that. Mr M's income on his SA302 – the document The Co-op asked for to verify his income – was lower than he'd told The Co-op.

The Co-op was entitled to ask for information and evidence to support Mr and Mrs M's application. I don't think it caused unreasonable delays.

I appreciate that the application process took longer than Mr and Mrs M expected, and the outcome was not what they'd hoped for. But that doesn't mean The Co-op made errors or treated them unfairly. It's entitled to apply its lending criteria and ask for the information it needs to make a lending decision. Overall, I think The Co-op acted fairly when reviewing Mr and Mrs M's application for additional borrowing. In the circumstances, I don't think it's fair

and reasonable to require The Co-op to pay compensation or reimburse Mr and Mrs M's costs of repaying the personal loans early.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mrs M to accept or reject my decision before 29 January 2025.

Ruth Stevenson
Ombudsman