

complaint

Miss A and Mr B have complained about irresponsible lending by NRAM plc when it granted them a mortgage in 2007. The complaint has been conducted by Mr B on behalf of himself and Miss A.

background

In August 2007 Miss A and Mr B took out a 'Together' mortgage with NRAM. Against a purchase price of £147,000 they borrowed £140,150. The mortgage was over 35 years, with the first five years at a fixed rate of 6.59%. £29,525 was on a repayment basis and £110,625 was on an interest-only basis. In addition, Miss A and Mr B took out an unsecured loan of £15,375, also over 35 years, at a variable rate of interest. So their total borrowing from NRAM was £155,525, or 105.43% of the purchase price.

In 2013 Miss A and Mr B complained that the lending by NRAM was irresponsible. In summary they say that the total of the mortgage plus the unsecured loan was greater than the value of their property. They also complain that the mortgage was partly on an interest-only basis and that NRAM should not have lent on that basis.

Our adjudicator didn't recommend the complaint should be upheld. He was satisfied that Miss A and Mr B had met NRAM's lending criteria at the time. He also noted that Miss A and Mr B had said they would convert the mortgage to a full repayment basis after two years. Overall he was satisfied that there had been no error by NRAM.

Mr B asked for an ombudsman to review the adjudicator's findings. In summary, Mr B says that the lending was irresponsible for the following reasons:

- no lender would offer that mortgage in today's lending climate.
- the Together mortgage included an unsecured loan. This was disproportionate against joint earnings and their other levels of personal debt at the time. If they'd requested this loan from another bank they would not have met lending criteria.
- an interest-only mortgage, even for a limited time, was irresponsible.
- they were later unable to change to repayment as there was insufficient equity in the property to meet NRAM's requirements for this.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

Mr B is correct that in today's lending climate it would not be possible to secure a mortgage of this type, with the additional unsecured loan that was a feature of the Together mortgage. But what I have to consider is whether the decision reached in 2007 by NRAM to lend to Miss A and Mr B was irresponsible.

I can't speculate on whether other lenders would have declined to lend to Miss A and Mr B in 2007 – this complaint concerns only the actions of NRAM in granting the Together mortgage. I also can't apply the mortgage lending standards of today to the events of seven years ago; what I have to look at is whether, in all the circumstances, NRAM acted irresponsibly in granting the mortgage and unsecured loan given the lending criteria and mortgage market in 2007.

The total loan to value ratio (LTV) was 105.43% against the maximum allowable LTV under the Together mortgage of 125%. So the lending was well within acceptable margins and in line with NRAM lending policy for this particular mortgage product.

I'm satisfied that, on the basis of their combined income of £45,000 per annum, the lending was approx. 3.5 x the combined salaries, an acceptable multiple in 2007 and within affordability levels. I also note that Miss A and Mr B said they were going to repay one of their existing loans out of the unsecured loan, freeing up £154 per month.

An interest-only mortgage was not inappropriate, particularly given that Miss A and Mr B told NRAM their intention was to switch to repayment in two years' time. I know this has not now been possible, but in 2007 this was an acceptable scenario, particularly for first-time buyers to keep initial repayments low in the early years of their mortgage and where the property market was rising.

I do appreciate that since 2007 the mortgage and property markets have changed following the global financial crisis that began in late 2007. I think it's fair to say that in August 2007 neither Miss A and Mr B nor NRAM could have anticipated or predicted either the crisis or the ramifications of this for mortgage customers. But the fact that this type of mortgage would not be granted today doesn't mean that it was irresponsible lending in 2007.

Overall I'm satisfied that NRAM properly assessed the application and the lending met its criteria at the time. Neither the LTV nor the income multiple was at a level that would give me any reason to conclude that the lending was irresponsible.

my final decision

My decision is that I do not uphold this complaint.

Jan O'Leary
ombudsman