

The complaint

Ms D and Mr L complain about their declined mortgage application through National Westminster Bank Plc. The reason behind the refusal was their source of deposit, which they say NatWest should have asked them about sooner.

What happened

Mr L approached NatWest to apply for a mortgage. He says initial conversations took place with a branch staff member around mid-January 2020. Mr L didn't meet affordability on his own so Ms D was added to the application. They passed initial affordability checks on a joint basis.

Whilst Ms D and Mr L were applying for the mortgage in joint names, Mr L was going to live in the security property on his own. Ms D had her own property that she would continue to reside in. NatWest says it was initially told the deposit was being gifted by Ms D. NatWest deemed this to be in line with its lending criteria and so the application could proceed to the next stage.

An appointment with a mortgage advisor was booked for 27 February 2020 to complete a full application. The branch staff member called the applicants the day before to chase some outstanding paperwork and to clarify the source of the deposit. NatWest says it became apparent at this point that the deposit was coming from a 'personal loan' which goes against its lending policy. So, the application didn't proceed.

The applicants complained to NatWest. They say they were misled into believing they were dealing with a mortgage expert from the outset and should've been asked much sooner where the deposit was coming from.

The applicants have told our service that the deposit was to be funded from an equity release loan against Ms D's property. Ms D says she had already applied to her bank for these funds as she was planning to carry out some home renovations and would have spare funds to use towards the deposit.

The applicants say NatWest gave them the impression the mortgage was as good as guaranteed. As a result, they got their hopes up, made adjustments to their living arrangements and fully committed their time and effort to prepare for the advice meeting. They say they also incurred direct legal costs.

The applicants have further explained the additional impact on Mr L as a vulnerable person who suffers with his mental wellbeing. Mr L's intention to purchase a property was driven by his desire to aid his independence and future security. They say NatWest raised their expectations. Mr L moved out of his accommodation which was deemed to be unsafe and was supposed to move in temporarily with Ms D. The inability to progress with his purchase made this a more permanent arrangement which was not their intention. The declined application led to a heightened sense of disappointment due to everything Mr L had riding on the purchase of his own home.

NatWest didn't uphold the complaint. It said the true source of the deposit came to light prior to application and offer stage, and lending was refused in line with its policy. NatWest didn't agree it had done anything wrong.

Unhappy with NatWest's response, the applicants brought their complaint to our service. As part of their complaint they also said that NatWest gave them wrong information about the stamp duty land tax (SDLT) payable on the purchase and they raised some concerns about NatWest's complaints handling.

Our investigator looked into things and didn't initially uphold the complaint, but later changed her opinion. Whilst she thought the mortgage application hadn't been unfairly declined, she thought NatWest should have asked about the source of the deposit sooner. She thought NatWest's failure led the applicants to suffer unnecessary distress and inconvenience and so she awarded £100 compensation.

Our investigator also issued further findings on the SDLT and complaints handling matters but didn't think NatWest had done anything wrong in those respects. The applicants accepted our investigator's finding here. They also agreed with her finding in relation to the declined application but didn't think the amount awarded fairly compensated them for the distress and inconvenience caused. NatWest also disagreed with our investigator's findings on this point. As an agreement wasn't reached, the case was passed to me to decide.

I issued a provisional decision focusing on the matter still in dispute. That being the declined application and the reason behind it. An extract of my provisional findings is below.

"...Both parties disagree on what was discussed in relation to the deposit source and I've been provided with conflicting information on what the actual source of the deposit was.

Where the evidence is incomplete or contradictory, as some of it is here, I reach my decision on the balance of probabilities – that is, what I consider is most likely to have happened, in light of the evidence that is available and the wider surrounding circumstances.

NatWest can't provide evidence of the information gathered during the initial fact find/affordability assessment which goes against its own record keeping requirements as set out in its policy. So, I have no documentary evidence to confirm what was discussed during the initial branch meetings. NatWest also says branch calls are not recorded.

The applicants have been clear and consistent with what they've told me, and I've taken that into account when thinking about what's likely to have happened.

It's common practice for initial mortgage application enquiries to be dealt with by general bank staff. They'll take some details and check the customer(s) meet affordability before arranging a full application appointment with a qualified mortgage advisor. This appears to be the case here.

I don't disbelieve the applicants when they say they thought they were dealing with a mortgage expert from the outset but think it's unlikely NatWest intentionally misled them into thinking that. I say this because NatWest did explain the next stage of the process was to refer the enquiry to a mortgage advisor which was arranged for 27 February 2020.

It wasn't until around this time that the applicants were told that their source of deposit didn't meet NatWest's lending criteria. It's not uncommon for general branch staff to have different levels of mortgage experience and knowledge - including knowing the different aspects of the lending policy. So, in normal circumstances I might say it's not unreasonable for lending policy matters to only officially be confirmed by a qualified mortgage advisor. But in this

case, it appears the branch advisor had some knowledge of the policy. She was able to confirm what deposit sources were acceptable or not.

NatWest has provided a copy of its lending policy, so I'm able to see what's likely to be an acceptable source of deposit or not. The policy says unsecured personal loans are not acceptable as a source of deposit. But equity released from another property belonging to the applicant(s) is permitted subject to certain criteria. So, the distinction between the two makes a substantial difference here.

NatWest says it was led to believe the deposit was being 'gifted'. Its policy says that gifts from third parties are an acceptable source of customer deposit, but only where there is no repayment required. But Ms D was not a third party, she was an applicant. It's not possible for someone to gift to themselves as a joint applicant, So, it's unclear why NatWest recorded the deposit source as a gift or agreed to proceed on those terms without asking more questions.

Further to this NatWest had a duty to communicate in a way that's clear, fair and not misleading. As part of that, it should understand that consumers are not experts and need guidance along the way. Just because NatWest asked the question about the deposit, and they get an answer from the applicants, that's not necessary enough in the circumstances. There may be occasions, like this one, where NatWest needed to probe or ensure the question was articulated in the right way – to understand the exact source of the deposit.

It's not clear why the source of deposit was later simply recorded as a 'personal loan' when it was in fact an equity release mortgage. But that just reconfirms my point that a detailed enough conversation about the deposit did not take place. Had NatWest asked the right questions and probed further, it would have come to light sooner that the deposit was being funded by an equity release mortgage. This would have likely met lending criteria and the application could proceed.

When taking everything into account, and in the absence of any evidence to suggest otherwise, I'm not satisfied NatWest has treated the applicants fairly. They were wrongly refused to proceed with their application and not communicated with in the right way.

Putting things right

Ms D and Mr L have explained in detail how they've been impacted as a result of NatWest's actions.

It's important to note that whilst it's likely NatWest should have let this application go ahead, there is no guarantee lending would be accepted as the final underwriting decision would be made based on various other factors. In normal circumstances I'd suggest NatWest allow the applicants to reapply if they wanted to. But the applicants in this case, have explained that their circumstances and plans have changed so they're no longer in a position to purchase a property.

I've taken all of this into account, along with all the other information the applicants have provided about how they've been impacted as a result of NatWest's actions to decide a fair and reasonable level of compensation.

In any situation, buying a first home is always going to be an important milestone and a big deal for someone. NatWest raised the applicants' expectations. That level of expectation may differ depending on the person and their circumstances. In Mr L's case buying his own home would make a significant difference in this situation for the reasons explained. The disappointment of being told he was unable to proceed with his application and fulfil his goal

of owning his own property, would be more for him than perhaps others due to his particular personal circumstances and vulnerabilities. And that needs to be taken into account when deciding the right level of compensation.

The applicants have said that they've incurred direct legal costs as a result of NatWest's actions. Whilst I appreciate Ms D and Mr L's frustration, I can't hold NatWest responsible for any financial loss caused. I'll explain why.

Until a lender issues a formal offer, it's under no obligation to provide the mortgage. Without reaching offer stage, the applicants chose to move forward with conveyancing incurring around £132 in fees. That's a choice they made without any guarantee their mortgage would be approved. So, I can't hold NatWest responsible for the financial loss caused.

The applicants have put forward personal reasons why they've been severally impacted as a result of not being able to obtain this mortgage for example the alterations made to their living arrangements in anticipation. But again, these actions were self-driven and not reasonably foreseeable by NatWest.

As mentioned, I don't think NatWest got everything right and I do think it should pay the applicants compensation for the distress and inconvenience caused. When taking everything into account, I think £500 is fair in the circumstances, considering the unnecessary time and effort spent preparing for the mortgage interview and the way Mr L has, in particular, been personally impacted in the circumstances".

NatWest hasn't responded to the provisional decision. Ms D and Mr L responded to say they accept the provision decision and had had nothing further to add.

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.

I've also given careful consideration to all of the submissions made before arriving at my decision. I note that neither party has made any further arguments, or provided any further evidence, since I issued my provisional decision. I've carefully considered again what I said.

Having done so, I've reached the same conclusions as set out in my provisional decision and for the same reasons.

My final decision

For the reasons set out above, my final decision is that I uphold this complaint and direct National Westminster Bank Plc to pay Ms D and Mr L £500 compensation for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D and Mr L to accept or reject my decision before 21 March 2022.

Arazu Eid
Ombudsman