

The complaint

Mr and Mrs H are unhappy that Nationwide Building Society declined their application for a Later Life Mortgage (LLM). As a result, they had to raise funds elsewhere to carry out building work, and were caused distress and upset. To settle the complaint they are asking Nationwide to pay financial compensation to offset the impact of arranging alternative finance.

What happened

I will summarise the complaint in less detail than it's been presented. There are several reasons for this. First of all, the history of the matter is set out in detail in correspondence, and in the investigator's letters dated 30 July 2021 and 14 March 2022. All parties have seen those letters, so there is no need for me to repeat the details here. Secondly, what happened really isn't in dispute, so I don't need to analyse the events in order to determine why a complaint has been made. Finally, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs H being identified.

Briefly, in November 2020 Mr and Mrs H applied to Nationwide for a LLM (which is an equity release mortgage, where borrowers can either opt to make monthly repayments, or else allow the interest on the mortgage to roll up, as with a standard equity release product).

They wanted to raise funds to carry out extensive refurbishment of their home, which they had bought a couple of months earlier. On 25 November 2020 Mr H had a conversation with a LLM consultant at Nationwide. During the course of the conversation Mr H explained that there was no bathroom in the property, and that he and Mrs H would be moving out while the renovation was carried out and would be renting a property elsewhere during the course of the building work.

Nationwide provided an illustration for a mortgage of £70,000, subject to receiving building quotes and Mr and Mrs H receiving independent legal advice. After quotes were eventually received, it was noted that the work was likely to cost more than originally anticipated. As a result, the loan amount was increased to £84,000, with Mr and Mrs H intending to use some of their savings for the balance of the work.

The LLM Consultant provided the property risk team with information given to her about the work, including confirmation that the property would not be habitable during the work.

The application proceeded but on 23 February 2021 it was declined, because the property would not be occupied or be habitable during the building work.

Mr and Mrs H complained to Nationwide. They said that they'd been led to believe that the only thing holding up the mortgage offer was the valuation, and that it had been made clear from the start that they wouldn't be living in the property while the work was being done.

In order to get the work carried out, Mr and Mrs H arranged finance elsewhere, and borrowed from family members.

Nationwide didn't uphold the complaint. In its final response letter, Nationwide said that it thought it had done nothing wrong in declining the application, as it fell outside its lending policy. Nationwide also said that it was Mr and Mrs H's decision to start the building work without a mortgage offer.

Dissatisfied with Nationwide's response, Mr and Mrs H complained to the Financial Ombudsman Service. An investigator looked at the complaint and thought it should be upheld. He noted that Nationwide had provided a copy of the document which the LLM consultant would have used to gather information from Mr and Mrs H. One of the questions was:

"Will the members remain in the property whilst the works are carried out/ will the property remain habitable? (If No-decline)"

The investigator was satisfied this was a clear, unambiguous question, and that Mr H had explained during the initial call on 25 November 2020 that he and Mrs H wouldn't be remaining in the property while the work was being carried out. As a result, the investigator was satisfied that the mortgage should have been declined at that initial stage.

The investigator asked Nationwide to pay compensation of £250 for the trouble and upset caused to Mr and Mrs H, as well as any costs incurred by Mr and Mrs H for the failed application.

Both Mr and Mrs H and Nationwide disagreed with the investigator's findings. Mr and Mrs H said that £250 in no way compensated them for their financial losses. (They confirmed they had incurred no additional costs.)

Nationwide said that, notwithstanding the question (set out above) about whether the property would be occupied or remain habitable which the LLM consultant was required to ask, it was up to the property risk team to decide whether or not to accept the application. Nationwide says that it was only in February 2021 when quotes for the building work showing a full refurbishment were received that it was first realised by Nationwide that Mr and Mrs H were carrying out a full refurbishment. As a result, this fell outside lending policy.

Because neither party has accepted the investigator's findings, it falls to me to issue a decision.

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 listened to the call recording of the conversation between Mr H and Nationwide on 25 November 2020. From this I'm satisfied that Mr H is quite clear in explaining that there will be a full refurbishment of the property. He says there is no bathroom in the property and that the work will involve a new kitchen and bathroom. He states quite clearly that, due to the amount of work, he and Mrs H will be moving into rented accommodation while the work is being carried out.

I've also looked at the additional information which the LLM consultant is required to compile before an application can proceed. It is clear from this that, if the borrowers are not remaining in the property while the work is carried out, the application should be declined.

Nationwide says that, despite this, the application would not be declined at the initial information-gathering stage with the LLM consultant, even if the answer to that question is 'yes' (which was the case here). However, the instruction to the LLM consultant is clear – which is that the application should be declined. It is difficult to put any other interpretation on this, when Nationwide's own documentation is unequivocal that the application should be declined at the information-gathering stage. I therefore reject Nationwide's assertion that the LLM consultant could not have declined the application, given that its own direction states the complete opposite.

I don't know if the LLM consultant made a mistake in not applying this direction at the time of the initial call, or if she chose to ignore it. But I think if she had correctly followed the process *as set out in Nationwide's own internal document*, then she would (or should) have told Mr H during the initial call that the application couldn't proceed if he and Mrs H weren't going to be in occupation.

The result of this mistake was that Mr and Mrs H were – incorrectly – led to believe that their application could proceed. Given this, I'm satisfied the complaint should be upheld.

Putting things right

Where a mistake has been made, I have to try to put Mr and Mrs H back in the position they'd have been in if the mistake hadn't been made.

If Mr H had been told during the call that the application couldn't proceed if he and Mrs H were moving out of the property, then they would have known at that point that they'd need to arrange finance elsewhere. Mr H has told us that he approached other equity release providers, and it was confirmed that they couldn't lend on a property that was going to be vacant whilst a total refurbishment was being carried out.

In the circumstances, because Mr H was already retired, I think the options for alternative finance were limited. I completely understand that Mr and Mrs H didn't want to lose their builders and needed to get the work started. They arranged an alternative source of finance for some of this, and borrowed from their family for the rest. But I can't hold Nationwide responsible for that; I think it's unlikely that Mr and Mrs H would have been able to source either a traditional or equity release mortgage elsewhere, due to either their financial circumstances and/or the need to satisfy lending criteria in relation to the occupation of the property.

Given this, I think that if Nationwide had correctly applied its policy and told Mr H in November 2020 that the application couldn't proceed, he and Mrs H would have been in the same position of needing to source alternative finance outside the mainstream mortgage market.

It wasn't until February 2021 that the application was declined. But this was largely due to the difficulty in getting an itemised written builder's quotation for the work, which wasn't provided until 3 February 2021. In the circumstances, although I understand Mr and Mrs H were under some stress for a few months while they thought their application was proceeding, I'm not persuaded that Nationwide is responsible for any delays, given the length of time it took for the builder to provide a written quotation. Even if they'd been told in November 2020 that Nationwide couldn't lend, it would still have taken the builder the same amount of time to provide the quotation, which any other lender would need to see.

As a result, although Nationwide made a mistake, I'm satisfied that the compensation suggested by the investigator of £250 is fair, reasonable and proportionate to the mistake made by Nationwide in not telling Mr and Mrs H at the outset that their application was outside lending criteria. But as I said above, I'm not persuaded that any additional delay was as a result of any error by Nationwide, so I'm not ordering Nationwide to do anything further.

My final decision

My final decision is that I uphold this complaint. In full and final settlement Nationwide Building Society must pay Mr and Mrs H compensation of £250. I make no other order or award.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any correspondence about the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H and Mrs H to accept or reject my decision before 21 June 2022.

Jan O'Leary
Ombudsman