The complaint

Mr and Mrs P complain that Target Servicing Limited caused delay in the redemption of their shared equity help to buy loan.

What happened

Mr and Mrs P bought a property with the aid of a mortgage and a help to buy loan. A help to buy loan is a form of shared equity loan offered by a government agency to support home ownership. It's secured by way of a second charge over the property and rather than a fixed sum a borrower borrows – and must repay – a set percentage of the property's value.

Help to buy loans are unregulated products, and so is the lender that offers them. But the lender has appointed Target to administer the loans on its behalf. Target is a regulated firm and in administering the loans is carrying on a regulated activity. Target is therefore responsible for answering this complaint.

Help to buy loans are interest free for the first five years, but from then on interest is payable on the sum borrowed until the loan is repaid. Mr and Mrs P borrowed 15% of their purchase price in August 2016, so interest would become payable from August 2021.

In July 2021 Mr and Mrs P decided to repay their help to buy loan. They contacted Target to start the process and obtained a valuation of their property – this is necessary because the redemption sum is the same percentage they originally borrowed of the value at the time of redemption.

Mr and Mrs P sent the valuation to Target. They say they heard nothing further and the redemption process did not proceed. In 2022 Mr and Mrs P complained. They say they tried repeatedly to contact Target and try to progress the redemption. Eventually Target told them a new valuation would be required. Mr and Mrs P obtained a second valuation in July 2022 and sent this one to Target too.

In May 2022 Target told Mr and Mrs P it would refund the cost of the second valuation because of the delays. Mr and Mrs P say that to date it hasn't done so. Mr and Mrs P were finally able to redeem their loan in November 2022.

Mr and Mrs P complained about the delay and the impact it had caused on them – including many hours spent chasing Target for updates, as well as the stress and worry. They said they were out of pocket because of the second valuation as well as the extra interest they'd had to pay.

Our investigator said that Target should have allowed the redemption to proceed based on the first valuation. He said Target should refund the additional costs Mr and Mrs P had incurred and pay them £350 compensation. Mr and Mrs P accepted that. As Target didn't reply to the investigator's assessment the complaint comes to me for a final decision to be made.

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.

In administering this loan on behalf of the lender, Target is carrying on the regulated activities of debt administration and debt collection. That means it is performing the lender's duties and exercising the lender's rights, as well as collecting payments due on the lender's behalf. In doing so – in common with all regulated firms – it must treat its customers fairly. I'll therefore consider whether, in doing those things, it acted fairly and reasonably in all the circumstances.

Under the terms of the loan agreement, the borrower is entitled to redeem the loan at any time by application to the lender's nominated agent – Target. To determine the redemption price, a qualified valuer must be appointed by agreement between the parties. The valuer's decision is final and binding, and is used to set the redemption sum. A valuation is valid for three months (extendable by one further month).

In this case, Mr and Mrs P decided to redeem as they were approaching the start of the period where interest would be payable. They were not selling the property, and they've shown they had sufficient resources to be able to pay the loan off without either selling or taking further borrowing elsewhere. So redemption wouldn't have been a problem for them once the redemption sum was set.

Mr and Mrs P contacted Target in early June 2021 to start the process. Target told them to appoint a qualified valuer, pay the redemption fee and complete the redemption request form.

Mr and Mrs P did all those things. It's important to note that Target did not request agreement to the specific valuer Mr and Mrs P chose, or add any further conditions or requirements. It just required the valuer to be qualified. The loan terms require a valuer to be appointed by agreement between the parties. In telling Mr and Mrs P to appoint a valuer of their own choice – subject to the requirement of being a qualified professional – Target agreed to accept their choice.

That means the resulting valuation was final and binding and should have been used to set the redemption amount. On the lender's behalf, Target exercised the lender's right to agree to a nominated valuer by agreeing to accept Mr and Mrs P's choice. That created a duty on the part of the lender to treat the valuation as binding and allow redemption based on it – as the nominated administrator, therefore, Target was obliged to perform that duty.

In other words, on receipt of the valuation, Target was required to allow redemption to proceed. But it didn't do so. According to its records, it didn't do anything for several months. Then in October 2021 it asked for further information, including an EWS1 for the property. It also asked the surveyor to complete a further declaration in addition to the valuation. Then in March 2022 it asked for a further valuation. Even once a further valuation was provided in July 2022, it took a further four months for the redemption to proceed.

I don't think this was fair and reasonable. Under the terms of the contract, as I've said, the valuation produced in July 2021 was final and binding. Target says that because the property was affected by cladding issues and had declined in value as a result, the lender required further information such as an EWS1, a separate declaration from the original valuer, and ultimately a new valuation before it would proceed. But under the terms and conditions the lender wasn't entitled to request any of those things. Target had agreed the valuation on its behalf and the valuation was therefore final and binding. If further information or further instructions to the valuer were required, the time to request these was before the valuer was instructed – as part of the contractual process of agreeing a valuation – not after the final and binding report was produced.

Target ought to have understood what the lender's obligations were, and ensured that – in carrying out the regulated activity of debt administration – it performed them. It didn't do that. The redemption was delayed as a result. That wasn't fair and reasonable in all the circumstances.

Putting things right

Mr and Mrs P ought to have been allowed to redeem their loan based on the first valuation, within a reasonable time. A valuation is valid for three months, and I accept it would always have taken some time for the redemption process to proceed even if Target had acted fairly. But Mr and Mrs P ought to have been able to redeem their loan no later than 31 October 2021. It's therefore fair and reasonable that Target refunds all interest and administration fees charged after that date.

Target should also refund the costs of the unnecessary second valuation. It did offer to do that in July 2022 so it's most disappointing to see that, eighteen months later, it still hasn't done so. As both valuations reached the same figure, the redemption sum would have been the same if the first one had been used so there's no loss there.

Finally, Target should compensate Mr and Mrs P for the upset and inconvenience its delays caused. Mr and Mrs P weren't moving house or re-mortgaging, so they haven't lost out on a property sale or purchase, or a favourable interest rate, as a result. But they have had to spend an extra year chasing Target trying to get things resolved, as well as arranging a new valuation and paying extra interest they shouldn't have had to pay. I'm satisfied £350 is fair in all the circumstances.

My final decision

My final decision is that I uphold this complaint and direct Target Servicing Limited to:

- Refund all interest and administration fees charged from 1 November 2021 onwards, adding simple annual interest of 8% running from the date each payment was made to date of refund.

- Pay Mr and Mrs P £432, being the cost of the second valuation, adding simple annual interest of 8% running from 11 July 2022 to date of refund.

- Pay Mr and Mrs P £350 compensation. If payment is not made within 28 days of the date Mr and Mrs P accept this decision – if they do – Target should add simple annual interest of 8% running from the date of this decision to the date of payment.

Target may deduct income tax from the 8% interest element of my award, as required by HMRC. But it should give Mr and Mrs P a tax deduction certificate so they can reclaim the tax from HMRC if they are entitled to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P and Mr P to accept or reject my decision before 18 March 2024.

Simon Pugh
Ombudsman