The complaint

Mr and Mrs P are unhappy with the service they received from Coutts & Company when making changes to their mortgage. They say they were led to believe that a new fixed interest rate had been agreed, only to find out that this wasn't the case. Mr and Mrs P lost out on their preferred interest rate and say that Coutts is responsible for the extra interest they'll now pay.

What happened

Mr and Mrs P had a mortgage with Coutts. In 2020 they agreed to a fixed interest rate of 1.99% until 16 January 2022, after which their mortgage would revert to Coutts' variable rate. Their mortgage balance was in the region of £1,000,000 and they had two years and seven months remaining on the term of the mortgage. The mortgage was agreed on an interest only basis.

In late 2021, Mr and Mrs P enquired about making changes to their mortgage. They were looking to extend the term of their mortgage and secure a new fixed interest rate. They were referred to a mortgage advisor. On 2 February 2022, a fact find appointment took place to start the application process.

During the call, the mortgage advisor discussed several interest rate options with Mr P – including a two-year fixed rate of 1.94% and a five-year fixed rate of 1.99%. Mr P said he was keen to keep their monthly payments to a minimum and he said he preferred a fixed interest rate. He said that he'd seen rates around half a percent lower with a high-street lender and that he'd explore his options further before deciding how to proceed. The mortgage advisor said that at the same time he'd enquire about a possible discretionary discount on the available interest rates for Mr and Mrs P. The mortgage advisor explained next steps and the need to finalise the process to secure a rate for Mr and Mrs P.

The mortgage advisor emailed Mr P a few days later to say that a discount of 0.10% had been agreed giving a rate of 1.84% fixed for two-years. The mortgage advisor explained that if Mr and Mrs P wanted to proceed, they'd need to meet again to finalise the credit assessment and to review all the necessary paperwork together.

A meeting to continue with the application wasn't arranged until 9 March. By this time the interest rates had increased and the rate of 1.84% was no longer available.

Mr and Mrs P complained to Coutts. They say that they were led to believe the interest rate of 1.84% had been agreed and in place. Mr and Mrs P ended up taking a tracker interest rate – 0.75% above base rate. They say that Coutts' actions caused them to miss out on a lower fixed interest rate and they want Coutts to compensate them for the extra cost they'll incur on their mortgage.

Coutts responded to the complaint. It did not accept that it committed to an interest rate at any point. It apologised for any confusion, but it didn't accept responsibility for Mr and Mrs P missing out on the interest rate they wanted. Coutts said that Mr and Mrs P couldn't commit to a meeting to finalise the mortgage application until 9 March. By then the interest rates had risen – that was not something that Coutts could have anticipated.

To recognise the frustration caused, Coutts refunded Mr and Mrs P the extra interest charged whilst their mortgage was on the variable interest rate. Coutts paid Mr and Mrs P £3,757.58. It also paid Mr and Mrs P a further £1,000 as a gesture of goodwill.

Mr and Mrs P remained unhappy that Coutts wouldn't honour a backdated interest rate of 1.84%, so they brought their complaint to the Financial Ombudsman Service.

An investigator at our service looked into things and didn't recommend that the complaint be upheld. She didn't find that Coutts was responsible for Mr and Mrs P missing out on their chosen interest rate.

Mr and Mrs P remained unhappy and asked for their case to be decided by an ombudsman.

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 understand it must have been disappointing for Mr and Mrs P to discover that the interest rates had risen during their application process. What I must consider in the context of this complaint is whether Coutts got things wrong, leading to the loss Mr and Mrs P have described.

In order to uphold this complaint, I'd need to be satisfied that Coutts was responsible for Mr and Mrs P missing out on the interest rate they wanted and/or that it mis-led them into thinking that they'd already secured their preferred interest rate. Having considered everything, I can't safely say that Coutts is at fault here. I'll explain why.

It's important to note that in order to secure a new interest rate, Mr and Mrs P would need to first extend their mortgage term, as it was ending in August 2022. Their new fixed rate product could not exceed the term of the overall mortgage.

The mortgage term is the length of time a mortgage is due to run for. This is agreed when the mortgage is taken out and will be shown on the mortgage agreement. Extending the term of a mortgage is a variation to the existing mortgage contract and requires customers to undergo a full mortgage review to proceed. Before an extension of the term is agreed, a lender will usually first carry out a fact find to establish the customers circumstances – including carrying out an affordability assessment. If the application is approved, the lender will provide the customer with a mortgage offer on the new agreed terms.

I've listened to the initial fact-find call that took place on 2 February. It was during this call that the available interest rates were discussed with Mr P. I'm satisfied that the mortgage advisor clearly explained the application process and the need to finalise things through a follow-up appointment to review all the necessary paperwork. The fact-find process wasn't completed. The call ended on the basis that a suitable interest rate was still being negotiated between the parties and Mr and Mrs P were still exploring their options through another lender too. So, at no point during this call was a rate agreed on or promised. And on that basis, it was necessary to complete the fact find once a suitable rate had been agreed on, as well as completing the final stage of the process to finalise all the necessary paperwork.

I’ve gone on to consider the ongoing correspondence between Mr P and the mortgage advisor to see whether at any further point in time Coutts led Mr and Mrs P to believe a specific rate had been secured.

Following their call, the mortgage advisor emailed Mr P on 9 February to say that Coutts could offer a discount of 0.10% on the two-year fixed rate deal of 1.94% - giving a rate of 1.84% fixed for two-years. The email was closed off by saying:

> *“If you do wish to proceed I would require we re-engage to finish the credit application together, this should take no longer than 20 minutes to finish.*”

Mr P responded the same day to say that they’d go for the discounted interest rate of 1.84%.

The mortgage advisor acknowledged Mr P’s email on 10 February and asked him to confirm his preferred term for the extension of the mortgage. He said:

> “Let me know and I'll move the case forward for you”.

The mortgage advisor didn’t hear back, so he emailed Mr P again on 15 February, this time to check that the amount of borrowing was remaining the same. Again, the mortgage advisor says:

> “*Let me know re the above and I will finalise the required paperwork and schedule a further call together to cover”.*

Mr P responded the same day to say *“yes, please renew at £1m”*

Between 15 February and 21 February further correspondence took place via email to establish Mr and Mrs P’s required term extension period. They finally agreed on five years and the advisor explained:

> *“I'll get the paperwork produced for you. This will take 3-5 working days and I will update you once received.”*

On 28 February the mortgage advisor tried to arrange an appointment with Mr and Mrs P for 3 March to finalise the application and the necessary paperwork. He didn’t hear back from Mr P until 8 March – agreeing to an appointment the following day. By that time the interest rates had increased.

Having carefully considered the emails noted above, I’m satisfied that the advisor continued to be clear about the required next steps to finalise Mr and Mrs P’s application for an interest rate switch and term extension. His several emails explain that to finalise things they’d need to meet again to continue with the application. Mr P didn’t commit to a meeting until 9 March, but by that time the interest rates had increased – something that was outside of Coutts’ control.

For reasons I’ve explained I’ve not seen anything to suggest that Coutts gave Mr and Mrs P false hope that their interest rate had been secured. Lending is only guaranteed once an application has been fully considered and a mortgage offer issued. That was not the case here as the mortgage application was never finalised and so Mr and Mrs P weren’t issued with a mortgage offer. And I’m satisfied the correct process was clearly explained to Mr and Mrs P on several occasions.

I appreciate there may have been some misunderstanding on Mr and Mrs P’s part. That is unfortunate, and I do empathise with their circumstances. But because I don’t find that

Coutts got things wrong, I can't reasonably direct it to honour a backdated interest rate on the preferred rate.

To compensate Mr and Mrs P for the time spent on the variable rate, Coutts has refunded them the extra interest charged of £3,757.58. It also paid Mr and Mrs P a further £1,000 as a gesture of goodwill. When considering everything I think this is fair and reasonable in the circumstances and I can't reasonably expect Coutts to do anything more.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P and Mrs P to accept or reject my decision before 23 February 2024.

Arazu Eid
Ombudsman