

## The complaint

Mr J complains about the way Step One Finance Limited handled his application for a second charge consumer buy-to-let mortgage, which they ultimately declined.

## What happened

On 21 June 2023 Mr J applied to Step One for a secured loan of £55,000 to consolidate existing debts and pay for his wedding. The application was based on a loan-to-value (LTV) of 88.49% and an interest rate product of 15.2% fixed for five years. On 22 June Step One issued a mortgage illustration which set out that they could potentially lend Mr J what he'd asked for.

After Step One had completed their initial affordability checks, they instructed a valuation for Mr J's property on 7 July. The surveyor valued the property at £132,500 on 14 July (received by Step One on 17 July), which was £17,500 less than Mr J had stated on the original application. Later that day Step One said as a result of the down valuation, and a change in their interest rate products and lending criteria, the amount they could potentially lend Mr J was now £28,750. Which after consolidation of his debts would have left him with around £3,000 cash to pay for his wedding. They sent Mr J another mortgage illustration on 18 July with the updated details, which stated the interest rate product would be 15.45% fixed for five years.

Mr J asked Step One to proceed with the application on that basis, and it was passed to their underwriters to assess. Step One's underwriters decided that offering this loan would not be in Mr J's best interests. They said that was because the cost of the loan would be greater than the cost of the debts he was consolidating, and it didn't achieve his objective of being able to pay for his wedding. They informed Mr J of their decision on 21 July 2023.

Mr J complained to Step One about the way the application process had been handled. Step One sent Mr J their final response letter on 3 August 2023. They said that Mr J was made aware during the application process that if there were any changes to the loan details, a new quote would be provided which may also result in a change in interest rate quoted. Step One said that as the valuation of Mr J's property had changed, they had a responsibility to reassess the loan to determine a suitable product was available. They noted that there had been a slight delay in the information about their available products updating on their website, so they offered to pay Mr J £220 to cover the valuation fee he'd paid.

Mr J asked our service to look into his complaint. He said he was concerned about the following:

- Step One had falsely advertised their LTV criteria. At the time his application was declined because Step One had reduced their maximum LTV to 80% instead of 90%, their website still said they would lend up to 90%.
- In light of the Financial Conduct Authority's (FCA's) Consumer Duty, Step One never mentioned that the lending amount could be changed if the valuation came back lower than he'd stated. He said why did they bother to give him an illustration if it was subject to change? He said if the adviser had told him the impact that changes to the valuation could have, he never would have gone ahead.

- The Step One adviser lied to him throughout the process. He said they should have declined his application as soon as the valuation came back.
- Step One asked him the valuation of the property at the start of the application, but he is not a surveyor so how can they expect him to be accurate about that?
- Step One delayed the application process, whilst he answered all their questions quickly.
- After Step One had declined the application, all other lenders had stopped offering loans at 85% LTV at the time. He had received an offer from one other lender, but he had turned it down to go ahead with Step One as the rate was better. But if he'd known the illustration was subject to change, he could have saved his time and got the funds from the other lender.
- He wants more than the valuation fee refunded as he had to take a more expensive loan elsewhere. He said although Consumer Duty wasn't in place at the time of his application, Step One should already have been taking steps to get ready for its implementation.

One of our Investigators looked into Mr J's complaint, and said that in his view, Step One had not treated him unfairly.

Mr J disagreed and asked for his complaint to be referred to 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.

Step One have said that they updated their lending criteria on 6 July 2023. This meant that the maximum LTV they were willing to lend on was reduced to 80%, and their interest rate products changed at the time too.

When Step One assessed Mr J's mortgage application, they did so based on their lending criteria as it was at the time. I'm satisfied that was reasonable. I appreciate the lending criteria had changed since Mr J had initially submitted his application, but before the application was passed to Step One's underwriters to assess, the details surrounding the loan had changed (because of the valuation). So I don't think it was unreasonable for them to consider the updated application information against their criteria as it was at that time.

Before Step One's underwriters considered, and ultimately declined, Mr J's application they hadn't offered to lend him any money. I appreciate he'd received two mortgage illustrations, but I'm satisfied Step One made it sufficiently clear to Mr J that they were not actual offers to lend, and that the application may be reassessed if any of the details change.

Each illustration was accompanied by a message that said "Please be aware that due the volatility in the financial markets interest rates are changing frequently and at short notice. Any interest rate that is quoted to you on a Step One Finance Mortgage illustration is only valid for a period of 30 days as per the dates in the document. After that date the interest rate available may change. Separately, if there are any changes in the details of your loan (loan amount, LTV, credit profile, etc.) a new quote will need to be provided which may also result in a change in the interest rate quoted. Please note that a loan quote is only an indication and not a binding obligation of Step One to lend."

So whilst I appreciate Mr J was likely hopeful that he'd get the funds he'd requested, I'm satisfied Step One managed his expectations appropriately about that.

Step One ultimately declined Mr J's application because they didn't think the loan was cost effective for him and wouldn't achieve his objectives. As Step One were providing advice to

Mr J about this mortgage, they had a responsibility to ensure that the mortgage was suitable for his needs. They also have a regulatory obligation to lend responsibly. They decided this mortgage wasn't suitable for Mr J's needs, and as a result they didn't think it was appropriate to lend to him on that basis. I'm satisfied Step One were trying to prevent Mr J from incurring additional costs on lending that wasn't going to give him what he needed, which I consider was reasonable.

Mr J has also complained about the length of time Step One took during the application process. Whilst I appreciate there was quite a lot of back and forth requesting information about Mr J's income as he was self-employed, I haven't seen that Step One caused any unnecessary delays. The adviser Mr J was speaking to was trying to establish a way that they could lend Mr J what he needed to meet his objectives, and so they did ask a lot of questions, but I'm satisfied that was with Mr J's interests in mind as they were trying to ensure this mortgage was right for him. Mr J said Step One should have declined his application as soon as the valuation came back. Step One received the valuation on 17 July, and they gave him their decision on 21 July. I'm satisfied they considered the application and confirmed their outcome promptly. And the reason the mortgage wasn't declined immediately is because Step One were trying to establish whether they could lend to Mr J in a way that was suitable and responsible, before reaching their decision.

Whilst I appreciate Mr J responded to all of Step One's questions and requests promptly, and he made clear the urgent nature of the funds needed, I'm satisfied Step One handled his application fairly with no unnecessary delays. I've also not seen any evidence Mr J was lied to by the adviser.

Step One have apologised for the fact that the information on their website wasn't updated promptly when their lending criteria changed. They've paid Mr J £220 to cover the cost of his valuation fee which I think is fair in the circumstances, as at the time Mr J gave his consent for the valuation to go ahead, the information about their criteria on Step One's website was incorrect.

I appreciate Mr J has said that Step One have failed him under the FCA's Consumer Duty, but as Mr J acknowledges, the Consumer Duty was not in place at the time he applied for this mortgage. The Duty cannot be applied retrospectively, so I haven't considered this further.

Nevertheless, I have still considered what I think is fair and reasonable in all the circumstances of Mr J's complaint. Having done so, I'm not persuaded Mr J has been treated unfairly during his application with Step One. Whilst I appreciate Mr J feels he lost out on being able to obtain a secured loan that would give him what he needed with another lender because of Step One's actions, I'm not persuaded that's a result of anything Step One did wrong.

### **My final decision**

Considering everything, for the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 17 June 2024.

Kathryn Billings  
**Ombudsman**