DRN-5218379

The complaint

M and Mrs L complain that Santander UK Plc unfairly refused their application to port their mortgage product to a new property. As a result, they incurred an early repayment charge ("ERC") when they moved.

What happened

Mr and Mrs L had a mortgage and a fixed rate mortgage product with Santander. The mortgage was for £162,000 and they had a fixed interest rate mortgage product fixed at 1.64% until March 2027. They wanted to move to a bigger house and sourced a new build house. In January 2024, they applied for a decision in principle ("DIP") with Santander but were unable to get one but got one through another lender. Their broker then had a conversation with a mortgage adviser at Santander to see whether Santander would reconsider. Mr and Mrs L wanted to borrow £257,000. Santander declined the application on affordability grounds. Mr and Mrs L say that Santander refused it on stress tests that were less favourable to them than it would be to new customers.

Santander says that it considered the application but refused it on affordability grounds. It says that it stress tested the application using a follow-on rate that applies to their mortgage product of 8.5%. But it also says that it stress tested using the follow-on rate that applies to new products and the application still failed.

Our investigator didn't recommend that this complaint should be upheld as Santander had considered the application fairly under its lending criteria. Mr and Mrs L disagreed and asked for a review.

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.

Mr and Mrs L had a loan of, at that time of £151,840 and were looking to borrow a further £105,160. Mr and Mrs L applied for a DIP which was declined on 18 January 2024 and then made an application through a broker at the end of January. After Santander had looked at the payslips and the other financial information that it asked for, the underwriter decided that the loan was unaffordable. The notes refer to the debt to income was too high and the application unaffordable. As I understand it, at that time that Mr and Mrs L were paying off what debts they had and had changed a car to reduce the outgoings, but these were not yet showing on the credit reference agencies searches so the underwriter came to a decision with the actual outgoings overstated. From the subsequent call I understand that the broker had submitted evidence that some of the debts had been paid off but there was an issue that it may not have been uploaded correctly, although, as the broker said, he followed the instructions on the system.

After the initial refusal, Mr and Mrs L's broker and Santander's mortgage adviser had a call on 6 February 2024 which I listened to. This was call between the broker and the adviser to see what Santander could loan and whether there could be any adjustments made to the loan proposal so that it met Santander's criteria to allow it to lend the amount that Mr and Mrs L wanted.

There were two main obstacles affecting affordability. Firstly, part of Mr L's income was car allowance but not described as such on his payslips but as mileage and therefore non-taxable. As it was non-taxable and as mileage is a reimbursement of expenses, Santander didn't count that as income that would go towards the repayment of the mortgage. I can understand why that would be and in treating it in this manner Santander was following its lending criteria so applying the same criteria as it would to any other application. I can see nothing unfair about that. But it had the effect of deflating Mr and Mrs L's income.

The other issue is that there were debts showing with credit reference agencies that were either cleared or in the process of being cleared. I see the broker says that in his submission to us that "*in truth most of the debt had already been paid off and we went to great lengths to prove this to the lender. This fell on deaf ears.* " Whilst I appreciate that the original underwriter may not have had the full picture, I noted that to be fair to Mr and Mrs L, Santander's mortgage adviser proceeded on the assumption that the unsecured debts were cleared and provided figures to the broker based on that assumption but still the figures that Santander felt able to lend fell well short of what Mr and Mrs L wanted to borrow.

The broker says that Mr L downgraded to a less expensive car but the effect of this "*was ignored* " but it wasn't ignored in that call. Indeed, there was a discussion about Mr and Mrs L having only one car and the mortgage adviser ran through the impact of that on the affordability calculation. I believe that this would have brought the potential lending to £229,000. But that again wouldn't provide Mr and Mrs L with what they wanted to borrow even if it were feasible given their jobs and this feasibility is something the underwriter may have had concerns about later had the application proceeded further. I note that the adviser correctly in my view expressed his concerns about Mr and Mrs L taking actions to their detriment that still might not have led to the underwriter approving the application.

In that call there was no discussion about what stress test had been applied. Santander applied the rate set out in the mortgage product offer to Mr and Mrs L and the broker now says that Santander should have applied a different rate given the different interest rate environment at that time. Santander says that it applied the correct rate but if it applied the lesser rate suggested by the broker the difference would be only £8,0000. As I say there was no discussion of the stress test applicable in the conversation between the mortgage adviser and the broker, but I formed the view from that discussion that the gap was such between what Santander would lend and what Mr and Mrs L wanted to borrow that this would not materially have affected the outcome of the application.

I also bear in mind that this discussion was about potential lending so that in any case the application would have to proceed before an underwriter who may have had other concerns. I note thar the broker in his submissions to us on behalf of Mr and Mrs L says that Santander didn't apply its *"enhanced borrowing*" facility fairly and that if it were applied fairly the loan would have been affordable. But I note that in the conversation that I listened to when both the adviser and the broker were trying to see whether the loan could be made affordable within Santander's lending criteria, the broker makes no mention that Mr and Mrs L could have benefited from this or indeed mentions it all. That would have been the appropriate time to do so if he thought that this would have helped Mr and Mrs L get over the affordability line. But from reading the file and listening to that conversation I'm not persuaded that Santander didn't consider Mr and Mrs L's application fairly and I don't uphold this complaint.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L and Mr L to accept or reject my decision before 28 March 2025.

Gerard McManus
Ombudsman