DRN-4033915

The complaint

Miss M complains that Nationwide Building Society mis-informed her about her mortgage options when she enquired about a transfer of equity for her property. Now she has ended up paying more on her mortgage than should be the case and her father has had to pay stamp duty. Miss M would like to be compensated for this.

What happened

Miss M had a mortgage in joint names with her ex-partner and wanted his name removed from the mortgage. But she says Nationwide wouldn't allow the mortgage in her sole name but required her father to be added to the mortgage. Miss M says that she was initially assured that she could move the mortgage into her sole name with the term extended which would reduce the payments on the mortgage. But with the addition of her father, the mortgage payments have increased.

Miss M and her ex-partner secured a product switch in July 2022 ready to come into effect in November 2022. The new fixed rate product was on a rate of 3.4% with a contractual monthly payment ("CMP") of £881.62. Miss M wanted to take the mortgage into her sole name and if the mortgage term was extended from 27 to years to 37 years. she would be paying £742.87 per month which she says would make the mortgage affordable in her sole name. Miss M says that Nationwide agreed to do this in two conversations in September 2022. But later Nationwide said that to take the mortgage into her sole name was unaffordable. So, she had to get her father to join in the mortgage but as he already has his own property he has had to pay Stamp Duty of £4,364.00.

Nationwide accepted that it raised Miss M's expectations and credited Miss M's account with £250 compensation. Our investigator agreed that this compensation was fair and in line with what this service awards for mismanaged expectations. Miss M 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.

Miss M contacted Nationwide about a transfer of equity/change of borrower application. I have listened carefully to the relevant calls and read the evidence on file. In the phone calls in September, Miss M enquires about transferring the joint mortgage to herself on the same term as the existing mortgage. Although this was unaffordable, there were other options including help from Miss M's father and lower borrowing or extending the mortgage term to 37 Years. The representative suggested this extension as a possibility and that a mortgage in Miss M's sole name could be achieved. But firstly, a change of term application would need to be done by Miss M and the joint borrower and then Miss M would need to do a charge of borrower application.

From listening to these phone calls, I formed the view, as did Miss M, that as the representative had done an assessment that affordability would not be an issue. Although the representative prefaced her discussions by saying that she wasn't giving advice, it would have been reasonable I believe for Miss M to assume that indeed affordability with an extended term wasn't an issue which would have been a great relief for her given the stress she was under with the break-up of her relationship and the circumstances surrounding it. Indeed, I noted that Miss M queried the confidence with which the representative told her that affordability wouldn't be an issue as her partner, who had a greater income than her, had been refused a change of borrower application on affordability grounds.

Unfortunately, Miss M was unable to extend the term online and then had a phone call with a mortgage adviser who told her that the mortgage, regardless of the term extension, would be unaffordable in her own name. Miss M was also told that the timescales, which she understood from her previous conversations would apply to complete the transaction. would be longer than she had been informed. In the end Miss M had her father added to the mortgage but this then sparked a problem for him as he now had a share in two properties and so a stamp duty charge applied.

I have to consider whether Nationwide acted fairly. This was a transfer of equity where joint borrowers are being replaced by a single borrower. This isn't always straightforward, and an assessment will have to be done as to whether the single borrower's income will be able to afford the mortgage. Normally a transfer of equity will involve some payment to the other party for the equity in the property and I see that Miss M's parents were taking care of that.

The application was assessed in October. I can see from the notes that a careful assessment was conducted of Miss M's expenditure and income and the difficulty flagged that even with the joint mortgage, that Miss M had very little excess funds each month which cast doubts on her ability to pay the mortgage on her own and the underwriter's view was that Miss M would struggle to do that and so declined the application. At the same time as the refusal on 21 October Nationwide issued a Decision in Principle for a mortgage in the names of Miss M and her father. An application followed and, again, after a full assessment of the ability of the new joint borrowers to afford the mortgage, a decision to accept was made on 9 November 2022. In the meantime, I understand Miss M was able to retain the new mortgage product and the interest rate that came into effect on 1 November 2022.

My view is that in considering the transfer of equity application and what Nationwide could do for Miss M that Nationwide considered the relevant factors and that the decision it came to was fair within its lending criteria. A lender is entitled to look, as Nationwide did in October at Miss M's finances, and come to a conclusion on the affordability of a mortgage based on its analysis of those. But I am concerned that the initial phone calls between Miss M and the mortgage representative gave Miss M an unrealistic view that she would get a mortgage with Nationwide on her own over an extended term.

Prior to that conversation I understand that her ex-partner, who earned more than her, was unable to get a mortgage on his own so she approached Nationwide on the basis that she would need parental assistance as a joint borrower. But the impression Miss M reasonably formed after those phone calls in September, from what she was told by the representative, was that a mortgage over an extended term would be possible and that affordability - the reason the application was refused - would not be an issue. I felt that the representative strayed onto territory that she needn't have done including suggesting what the likely legal costs would be and underemphasising what can be the complexities of a transfer of equity application and the timescales involved.

So, whilst I'm satisfied that the application in October was dealt with fairly and in a timely and professional way by Nationwide, I take the view that Miss M would have believed from the September conversations that she could have achieved a mortgage on her own over an extended term without parental assistance and that the application would be straightforward. That said the conversations in September were only at a preliminary stage and I believe that Miss M would have been clear that the representative wasn't the person who decided on whether she got the mortgage or not.

I accept from the October application notes that Miss M's application to manage the mortgage on her own was fairly considered and failed the affordability test so I don't accept that Nationwide should provide a mortgage to Miss M solely. I understand Miss M to believe that had the application been processed in September it would have passed. I think that's unlikely. The mortgage representative to whom Miss M spoke would not be making the final decision and the grounds which formed the basis of the final decision - that Nationwide after analysing Miss M's finances wasn't satisfied that Miss M could afford the mortgage on her own - would have existed in September as it did in October when the negative decision was made. A mortgage representative who makes an initial assessment about affordability isn't the final decision-maker and its often the case that an initial indication of acceptance can change when a deeper analysis of a customer's finances are made.

Miss M asked me to consider a remark made between the representative and her supervisor which indicated that the application would likely be successful but that was not at the decision stage but at a preliminary stage and when the application was considered in detail it was refused. So, I don't consider that conversation material to the decision-making process.

Transfer of equity applications can be complex transactions involving splitting not only the mortgage but also the title of property between parties who previously had a harmonious relationship. It can be drawn out and acrimonious so it's important that Nationwide deals with the process in a reasonable timeframe. From my experience of this type of process, this transaction completed within a reasonable period. Miss M retained her property, the mortgage product that Miss M wanted was retained. The difficulty is that she couldn't get the mortgage on her own and the prospect held out to her of a mortgage on her own wasn't fulfilled. That would have been disappointing.

I consider that if Miss M was given a more realistic timeline of the process and her mortgage prospects at the start that this complaint could have been avoided. Because of the initial over optimistic assessment and the failure to manage her expectations, this complaint should be upheld as it was in fact by Nationwide. I believe that Miss M would have suffered a degree of distress. Nationwide offered compensation of £250. Given that in my view Nationwide managed the process otherwise within a reasonable period to achieve what Miss M wanted which was the transfer of equity from her ex-partner I believe on balance that this sum is fair. So, although I uphold his complaint I won't be requiring Nationwide to pay further compensation.

My final decision

My decision is that I uphold this complaint. As Nationwide Building Society has already paid reasonable compensation to Miss M. I don't require it to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 15 September 2023.

Gerard McManus
Ombudsman