DRN-4070240

The complaint

Mr W and X complain about the service they received from Lloyds Bank PLC when trying to switch their interest rate on their mortgage.

They wanted to switch their rate from a staff concessionary rate to a publicly available rate but feel Lloyds imposed unfair processes and barriers – causing an unnecessary delay that led them to missing out on a lower rate of interest.

They want Lloyds to honour and backdate this interest rate to their mortgage account and pay them compensation for the distress and inconvenience caused.

What happened

Mr W and X have a mortgage with Lloyds. Their mortgage consists of two sub-accounts. One part is on a retail fixed interest rate of 2.76% until 30 November 2030, the other is on a concessionary tracker interest rate – available through the Lloyds banking group colleague concessionary scheme.

Mr W and X became concerned about rising interest rates, so they explored the option of switching part of their mortgage from a tracker to a fixed rate. The product they wanted was a retail 10-year fixed rate of 3.18%.

On 26 September 2022 Mr W called Lloyds to make the switch. Mr W was told he'd need to speak to a mortgage advisor specifically trained to discuss staff mortgages. An appointment with a suitable advisor was made for 3 October 2022. However, by that time the interest rate product Mr W and X wanted had been withdrawn and replaced with a less favourable deal of 4.23%.

Mr W and X complained to Lloyds. They were unhappy that Lloyds' processes stopped them from getting the product they wanted. They don't agree that it was necessary to speak to a specialist mortgage advisor when switching *away* from a concessionary rate. A regular mortgage advisor should have been able to assist them and/or they should have been able to use an execution only process like other customers.

Lloyds apologised for any delays experienced. It said that due to significant changes in the mortgage market, it was experiencing high levels of demand – impacting the service it provides. Lloyds didn't uphold the complaint. It said the correct process had been followed. All staff who apply for new mortgage rates must take advice to take account of benefits in kind and any tax implications. It said the same applies even if switching from a staff mortgage to a public rate.

Mr W and X remained unhappy and brought their complaint to our service. Our Investigator didn't recommend that their complaint be upheld. He found that Mr W and X had experienced delay and frustration, but he concluded that was due to sudden high demand arising from the wider economic situation rather than anything Lloyds had done wrong. He also found that Lloyds had acted in accordance with its process by expecting advice to be given by a suitably trained mortgage advisor before any changes could be made to a staff mortgage.

Mr W and X didn't accept that conclusion. They still felt they'd been treated unfairly and that Lloyds' processes were to blame, so they asked for an Ombudsman to make a final decision on their case.

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've given careful consideration to all the submissions made by both parties, but I won't address each and every point that has been raised. I'll focus on the matters that I consider most relevant to how I've reached a fair outcome – in keeping with the informal nature of our service.

Having done all that, I don't think this complaint should be upheld. I realise this will be disappointing for Mr W and X. But I hope the reasons I have set out below will help them to understand why I have come to this conclusion.

Lloyds operates a scheme under which eligible staff can benefit from preferential mortgage products. I've carefully considered everything, including what Lloyds' policy says about how the scheme operates, and whether Mr W and X were treated fairly in accordance with the policy terms.

Mr W and X's mortgage consisted, in part, of a concessionary mortgage. This provides them with a lower rate than is available to the general public. However, this is classed by HM Revenue and Customs (HMRC) as a benefit in kind. Having a benefit in kind affects the tax paid. Lloyds says the tax implications are the reason it requires staff to apply for these products by phone. This is so that a suitably trained mortgage advisor can go through the advice process, to help them to decide whether the benefit of a lower mortgage interest rate outweighs the impact on the tax they pay.

Mr W and X don't dispute this. They accept it's necessary to speak to a specialist mortgage advisor when signing up to the scheme due to the tax implications involved. Their point is that they say they didn't want or need advice. They say that the said tax implications don't apply when switching away from the concessionary rate to a public rate and so it was not necessary to speak to a specialist mortgage advisor in their circumstances. I've thought carefully about this and whether it was reasonable for Lloyds to refer Mr W and X to a specialist mortgage advisor in the circumstances.

Amongst other things, the policy makes reference to a particular process that the mortgage advisor must follow and a specific application screen they must complete – not only when signing up a colleague to the scheme but also when making any changes to a mortgage that involves a staff concessionary rate – including moving away from such a rate onto a public rate. Whilst I can't say for certain, it is quite possible that only specifically trained mortgage advisors have access to the relevant systems.

However, what I consider to be of more importance here is how the advice sales process applies in these circumstances.

Lloyds says that its policy is that all staff on the concessionary rate – or looking to go onto the rate, need to go through a specialist mortgage advisor. The advisor is trained to explain how the new rate would affect the tax and if coming off the colleague rate was a suitable option.

Lloyds has explained that to make sure it's providing staff with the right advice, the specialist mortgage advisors can only recommend a product once the applicants individual needs and circumstances have been considered alongside the full range of available rates.

When considering everything, I think Lloyds' explanation about why it required Mr W and X to apply by phone is reasonable. I'm persuaded that it wouldn't be possible for a regular mortgage advisor to provide adequate advice on the basis that they aren't trained to discuss the concessionary scheme - so proceeding in this way means customers would be deprived of a full service – with advice only given on part of the available range. And – to fully explore the range of products available (including those from the concessionary range) the advisor would need to give the necessary tax advice – which I agree does require specialist knowledge.

I appreciate Mr W and X say that they were comfortable with the choice they were making, so in this case they should have been able to proceed on an execution only basis or at the very least without speaking to a specialist mortgage advisor. But, for the reasons I've explained, I'm satisfied Lloyds applied its policy fairly. Lloyds' policy says all staff accounts are manged on the phone, so all those with staff concessionary rates are directed to call to make changes to their accounts. Lloyds applied its policy accordingly – this requirement was the same for all other borrowers with staff mortgages and I can't reasonably say that it should have treated Mr W and X any differently.

I've asked Lloyds for clarity on its dedicated staff page - the 'Colleague concessionary product hub'. Our investigator suggested that staff can now apply online using the updated system. Lloyds has confirmed this is not the case. The page, which was in place at the time Mr W and X made their enquiries, was designed to give staff access to online information and calculators. It also provides an online booking system to speak to a dedicated advisor, instead of having to call the public phone line to make such an appointment. Lloyds has explained that nothing has changed in terms of the application process itself – which remains as an advised service over the phone with a dedicated mortgage advisor. As such I don't agree that Mr W and X have missed out on a new service that they say undermines Lloyds' position on its policy.

I appreciate Mr W and X complain about long wait times. I can understand their frustration. I must, however, also bear in mind all the circumstances. I accept Lloyds' explanation about why customers were having to wait so long to get through to an advisor in late September 2022. The wider economic situation was changing fast, and mortgage lenders were responding to that by changing their product offerings very quickly. As a result, many more mortgage borrowers than expected were trying to secure new mortgage products before they were withdrawn.

It's unfortunate that Mr W and X didn't get the rate they wanted. But there was never any guarantee about that. Products change all the time and, as I've already said, the market was moving fast at the time in question. Mr W and X were ultimately offered a new fixed rate within a week or so of Mr W's first call.

In all the circumstances, and bearing in mind the economic backdrop at the relevant time, I find I can't fairly require Lloyds to apply the rate Mr W and X originally wanted to their mortgage, and I make no order or award on the basis that I'm not satisfied Lloyds got things wrong here.

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 W and X to accept or reject my decision before 28 November 2023.

Arazu Eid
Ombudsman