

The complaint

Mr and Mrs C complain that Stonehaven UK Ltd trading as Canada Life undervalued their property, which meant it wouldn't offer to lend them as much as they wanted when they applied for a lifetime mortgage.

What happened

Mr and Mrs C applied to Canada Life with the aid of an equity release adviser. They thought their property was worth around £400,000, but the valuer instructed by Canada Life said that it was only worth £325,000.

Mr and Mrs C were unhappy about this, not least because it limited the amount Canada Life would agree to lend. They disputed the valuation and asked for a different valuer to visit their property. Canada Life wouldn't agree to instruct a new valuer, but it said it would consider an appeal against the valuation. It asked Mr and Mrs C to explain why they disagreed, and provide evidence of sales of comparable properties in their area as supporting evidence.

Mr and Mrs C say their property is hard to compare with other properties. They don't agree that the comparable properties used by the valuer in his report are appropriate. Their property is in a very rural area and includes substantial outbuildings which the surveyor didn't take into account. They say he should also have considered their land and its potential uses, which increase its value.

Canada Life said that it was entitled to rely on the valuer's report, but it would be willing to consider further evidence Mr and Mrs C could provide. It had to consider the value of the property as it is now not what might be done to it in the future. And when deciding how much to lend secured against a property it only considered the main residence not outbuildings, which was why they hadn't been taken into account by the valuer.

Mr and Mrs C brought their complaint to us. Our investigator thought Canada Life had acted fairly, so Mr and Mrs C asked for an ombudsman to review it.

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 C applied for a mortgage of £171,510 to repay an existing mortgage, on the basis that their property was worth £400,000. Following the valuation of £325,000 Canada Life was only willing to lend £139,750 – which wasn't enough for Mr and Mrs C.

I understand Mr and Mrs C's frustration. But I don't think Canada Life has acted unfairly. I'll explain why.

A valuation for mortgage purposes isn't quite the same as a valuation for marketing purposes. The purpose of a mortgage valuation is twofold. First, it's to enable the lender to find out whether the property meets its lending criteria – that is, whether it's the sort of

property the lender is willing to accept as security for lending at all. And secondly, if so, whether it's sufficient security for the amount the borrower wants to borrow.

Like all lenders, Canada Life has criteria for the sorts of property it is and isn't prepared to accept, and to what extent. Most relevant to this case, Canada Life doesn't take into account any outbuildings in calculating what it's prepared to lend.

If Mr and Mrs C were planning to sell their property, and the valuer was providing an appraisal of the market value of the property in its entirety – the house, land and outbuildings – then the valuation would include the outbuildings. It might also include potential future uses to which the land and outbuildings could be put, on the basis that a buyer might be willing to pay a premium for that in the expectation of a return on their investment later.

But those aren't factors Canada Life takes into account. The mortgage valuation wasn't an appraisal for marketing purposes. It was an assessment of whether the property met Canada Life's lending criteria – whether it was the sort of property Canada Life was prepared to accept as security for lending.

If the property had fallen entirely outside Canada Life's criteria, the valuer would have given it a nil valuation. That wouldn't have meant that Mr and Mrs C's property was worthless or had no value; it would have meant that no part of it could have been accepted as security for Canada Life's lending. A mortgage valuation is based on the lender's lending criteria, not solely the market value.

As it was, the property didn't fall entirely outside Canada Life's criteria. It was prepared to accept the residence – but not the outbuildings. It considers that there's a limited market for rural properties with substantial land and buildings, and so takes a conservative view of what the property might be worth – doing so allows it to lend on properties like this while reducing the risk that it might not be able to recover the full amount of lending if there are difficulties in selling.

Lifetime mortgages are generally repaid from the proceeds of sale of the property, after the borrowers pass away, downsize or move into care facilities. And they come with a no negative equity guarantee – a guarantee that the lender will never recover more than the property's worth even if the balance has grown to exceed that in the meantime. A property that might be harder to sell, or whose value depends on additional buildings that need upkeep beyond the main house but which a borrower might struggle to maintain, carries a greater risk that the no negative equity guarantee will come into force, which might result in the lender taking a loss when it's sold. But rather than rejecting properties like this altogether, Canada Life mitigates that risk by taking a cautious view of the value. I think in the circumstances it was fair and reasonable for Canada Life to require the valuer to only give a value for the residence and land and not take into account the outbuildings.

Canada Life is entitled to set criteria for what it's prepared to accept as security for lending. All lenders do that – and not all lenders have the same criteria. Had Mr and Mrs C applied to a different lender, they might have got a different result. But that doesn't mean Canada Life acted unfairly.

The valuer took into account what Canada Life was prepared to accept, and gave his professional opinion of what that was worth. Based on that valuation, Canada Life made an offer to lend to Mr and Mrs C – though unfortunately it didn't offer the full amount they wanted.

It was fair and reasonable for Canada Life to give Mr and Mrs C the chance to challenge the valuation by providing further evidence for consideration – in particular evidence of sales of

comparable local property. That's what I'd expect it to do. The value of a property is largely determined by local market conditions, so sales of comparable property are a standard piece of evidence to be considered.

Mr and Mrs C didn't feel able to do that – they took the view that their property was sufficiently distinctive that there wasn't anything it could be compared to. That may be the case, but it meant that there was no additional evidence for the valuer or Canada Life to consider to see whether it changed the valuer's mind. In the absence of further evidence, there was no reason to change the initial valuation. I've explained why it was reasonable that the valuer didn't include the outbuildings in setting the valuation.

I don't think it was unfair that Canada Life wouldn't carry out a second valuation, or consider an independent valuation if Mr and Mrs C obtained one. It had instructed a qualified professional surveyor, who gave their professional opinion based on Canada Life's criteria. It's reasonable to rely on the opinion of the qualified expert – there's no reason to believe a second valuer instructed by Canada Life would have reached a substantially different opinion, or that a valuer instructed by Mr and Mrs C would have done so if they'd taken into account Canada Life's specific lending criteria.

In summary, then, and while I do understand Mr and Mrs C's frustration, I think Canada Life acted fairly and reasonably. It has criteria for what lending risk it is prepared to accept. It instructed a qualified surveyor to value the property based on those criteria. Having given Mr and Mrs C the opportunity to provide further evidence for the valuer to consider, it was entitled to rely on the professional expert opinion of the valuer in deciding what it was prepared to lend.

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 C and Mrs C to accept or reject my decision before 3 January 2024.

Simon Pugh
Ombudsman