

The complaint

Messrs T's complaint is about a mortgage they applied for with National Westminster Bank Plc (NatWest). They are unhappy that the mortgage application was declined because of the nature of the build, when they had previously been assured it would not affect the application.

What happened

In 2022 Messrs T applied for a mortgage to purchase a property that had recently been built on land owned by relatives. They have told us they had discussed the concept of the purchase at an earlier date (when the build had just started) and had been told the property would not be considered a self-build for mortgage purposes as professional builders had been employed to complete the build.

When discussing the application with NatWest they were variously told that the property would be considered to be a self-build and so a mortgage would not be agreed, and that it would be regarded as a new build and need a suitable building warranty. As such, a building warranty was purchased by the relative, which took some time to arrange.

The mortgage application was submitted and accepted subject to an acceptable valuation being received. The valuer concluded the property was a self-build and so did not fit with NatWest's lending criteria. As such, the mortgage application was declined.

Messrs T complained to NatWest as they said they had been told throughout the mortgage process that the property would not be classed as self-build, which it subsequently was. This had meant the application could not proceed and they had bought a building warranty they didn't need.

NatWest responded to the complaint in its letters of 19 October and 10 November 2022. It upheld the complaint about Messrs T having been given incorrect information about arranging a warranty. It reimbursed them for the cost of the warranty and paid them £300 in recognition of its error and the inconvenience it caused them. However, in relation to the request from Messrs T for NatWest to pay for a warranty they arranged on a second property, it declined to do so as it had not been involved with the second property.

Messrs T were not satisfied with NatWest's response and asked the Financial Ombudsman Service to consider the complaint.

One of our Investigators looked into the complaint, but he didn't recommend it be upheld. He was satisfied due to the circumstances of its build, the property they wanted to mortgage was rightly described as a self-build. As such, the Investigator didn't consider the mortgage application had been declined unreasonably. In relation to how the application had been handled, he considered Messrs T's expectations had been raised and the process had been delayed because of the recommendation to purchase a building warranty. However, he was satisfied the £300 compensation already paid was sufficient in the circumstances for the non-financial loss, along with the reimbursement of the warranty cost.

Messrs T didn't accept the Investigator's conclusions. They said the £300 compensation was not enough as they had between them taken time off work that cost them over £450 in lost wages. In addition, they questioned the reimbursement for the warranty, as this was half the cost of the warranty for the whole build of two semi-detached properties, whereas if only the one they had been purchasing had been covered, the warranty would have cost £3,500. In addition, they believe their loss was more on the basis that mortgage rates had increased, missed time off work and their family had missed out on £14,000 of tax relief because they had owned the property for an additional year.

The Investigator responded to the points made, but as agreement couldn't be reached, it was decided the complaint should 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.

A lender will decide what types of property it is willing to provide mortgages for. Many lenders won't lend on a property that has recently been built on a self-build basis or on a new build unless it has a suitable building warranty attached. A lender is entitled to decide what types of risk it is willing to take when it lends, and that's not something this service would normally look to interfere with.

Lenders are not property experts, which is why they employ the services of appropriately qualified experts (usually surveyors) to complete an assessment of the property to establish whether it is suitable security for a mortgage. It is clear that when Messrs T spoke to NatWest about the property it was not sure how it should be categorised – self-build or new build - hence the differing opinions provided by different members of its staff.

On the basis that the property would be considered a new build NatWest agreed in principle to lend. However, the surveyor concluded the property should be considered a self-build because it had been built by (albeit using a firm of builders) the landowner, who was not a property developer or similar. This was outside of NatWest's lending criteria and so the surveyor concluded the property was not suitable security for a mortgage.

NatWest was entitled to rely on the expert opinion it had commissioned. So I can't find it was unreasonable for NatWest to decline Messrs T's application for a mortgage.

NatWest has reimbursed the cost it was told was associated with the building warranty purchased for the property. While Messrs T have said the cost was higher because a warranty was bought to cover both parts of the semi-detached property and it would have been higher if only half had been covered, I can't ask NatWest to increase the amount it paid. It has been confirmed the cost of the warranty was paid by the relatives who built the property, not Messrs T. I can only ask NatWest to reimburse financial losses caused directly to its customers, and so if it had not paid the sum it has, I would not be asking NatWest to pay more.

Messrs T have said the compensation NatWest has paid them is not enough as they lost more than that in income by attending meetings about the mortgage. That may be the case, but there is never a guarantee that a mortgage application will be accepted and it is clear that the nature of the build was unusual and not something that a branch adviser reasonably would have been able to be certain about. As such, it would not be appropriate for me to require NatWest to compensate them for the time they had to take out to deal with the mortgage application process.

That said, it is clear that the communication could have been better, and Messrs T were inconvenienced during the process of their relatives having to arrange an unnecessary warranty. As such, it is appropriate for some compensation to be paid in this case. I have thought about this matter carefully and I am satisfied the £300 already paid is sufficient for any inconvenience they were caused.

My final decision

My final decision is that I do not uphold this complaint. Under the rules of the Financial Ombudsman Service, I am required to ask Mr T and Mr T to accept or reject my decision before 11 January 2024.

Derry Baxter

Ombudsman