DRN-4192432

The complaint

Mrs K and Mr Z complain about their mortgage with Nationwide Building Society. They say it pressured them into making a decision, which led to them applying for a smaller mortgage than they'd intended. That left them with insufficient funds to cover all their costs, including the costs of moving house and renovating their new property.

What happened

Mrs K and Mr Z applied for a mortgage with Nationwide. They attended a video meeting with a Nationwide mortgage adviser in February 2022. They say that at the meeting they were asked how much they wanted to borrow – which included enough to repay their existing mortgage, plus £10,000 towards the cost of repairs on their new property.

Mrs K and Mr Z say the adviser told them that if they increased their deposit by £12,000 that would take their loan to value below 60%, which would reduce the interest rate Nationwide could offer. They say they wanted to take some time to think about it, but were told that they had to make a decision before the end of the meeting. They agreed, but say they didn't understand that this would result in less mortgage borrowing. The application went ahead for the lower amount, and Nationwide offered Mrs K and Mr Z the mortgage.

Mrs K and Mr Z complained. They say they felt pressurised into making a decision on the spot – but they should have been given more time. They say that Nationwide didn't properly explain the implications of increasing their deposit. It should either have given them more information before the meeting, or allowed them some time afterwards, so they had time to consider their options and make an informed decision. Although they welcomed the lower interest rate, they say they didn't understand that this would leave them with less money overall. They only realised the situation when they came to finalise the mortgage just before exchanging contracts on the property, by which time it was too late to change things.

Mrs K and Mr Z say they had to use all their savings and were left with no money to finance the repairs to the new property or buy new essential items. They borrowed from family to make up some the shortfall, but are having to repay that money and also haven't been able to carry out all the necessary repairs or fully furnish the property. To put things right, they want Nationwide to lend them the additional money – while keeping their mortgage on the lower interest rate – and pay them £5,000 which they borrowed from family.

Nationwide said its adviser made clear at the start of the interview that it could only lend funds for purchasing a property – any additional funds for repairs, furniture and so on would have to come from an applicant's own resources. It said interest rates could change at any time and so to secure the rate discussed in an interview, an application had to be submitted at that time. But it sent them paperwork confirming the discussion afterwards, so Mrs K and Mr Z could have asked for clarification or made any changes if they were unhappy. And it said the mortgage interview was based around the figures Mrs K and Mr Z had entered online when applying for a decision in principle, so they were aware of what would be discussed.

Nationwide said it had explained what Mrs K and Mr Z were entitled to borrow, and had explained how much they were applying for. It had given them enough information to understand what they were agreeing to. It didn't uphold their complaint.

Our investigator didn't recommend upholding the complaint. She said that Nationwide had explained things clearly and didn't place unreasonable pressure on Mrs K and Mr Z. Mrs K and Mr Z had initially misunderstood how mortgage deposits work but the adviser had explained the position correctly. Nationwide gave Mrs K and Mr Z suitable advice, and gave them clear enough information so they could understand what they were agreeing to.

Mrs K and Mr Z didn't agree, and asked for an ombudsman to review their complaint. They said they hadn't had a proper explanation and hadn't been given appropriate options. They said that in one lengthy meeting they were given a lot of information and expected to make decisions quickly without proper explanation. They said they had to make decisions there and then because they needed the mortgage to ahead so they didn't lose their property purchase. They said the adviser should have checked that reducing their mortgage balance made their plans affordable.

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.

Mrs K and Mr Z had an existing mortgage with Nationwide, with a balance of around £138,000. In moving house, they applied to increase their borrowing to around £338,000, against a purchase price of £540,000. Following the meeting with Nationwide, the application was reduced to £325,000, which brought the loan to value to just under the 60% threshold (I have rounded the figures for ease). Mrs K and Mr Z ported their existing mortgage interest rate of 1.24% on the £138,000, and needed a new interest rate for the new borrowing above their old balance.

Only a sound recording of the video call is available, but I've listened to that recording. Mrs K and Mr Z had a lengthy meeting with a Nationwide adviser on 21 February 2022. The adviser reviewed the decision in principle from a previous discussion.

Mrs K and Mr Z said they wanted to borrow an additional £200,000 on top of their existing mortgage. The adviser asked if they had any flexibility in their deposit, as if they reduced their mortgage by £12,000 it would bring them below the 60% loan to value threshold, which would slightly reduce the interest rate they would be able to take on the extra borrowing. They said they would look into whether they could do that, but the adviser said a decision would be needed today. She explained that if they took a two year fixed rate, the rate would reduce from 1.74% to 1.69%.

Mr Z said they had £12,000 savings they could use to add to the deposit, but also borrow an additional £10,000 to offset that. The adviser explained that wouldn't be possible, and that they wouldn't be able to borrow any additional money for at least six months after completion. Mr Z said that the appointment should go ahead on the basis that they would use £12,000 of their savings towards the deposit, Mrs K agreed, and the adviser confirmed that they still had additional savings on top of that amount – Mr Z and Mrs K said they did.

There followed a discussion about Mrs K and Mr Z's financial position and the amount they'd be comfortable paying each month, as well as the source of funds for their purchase. The adviser generated a new decision in principle based on the new borrowing amount (factoring in a change to the purchase price). Mrs K and Mr Z agreed they didn't want to pay an early repayment charge on their existing borrowing, and so wanted to port the existing rate and take a new interest rate on the further borrowing only. There was a lengthy discussion about which rates to take, with Mrs K and Mr Z opting for a two year rate.

Following the meeting, Nationwide sent Mrs K and Mr Z a recommendation letter, which set out the figures agreed in the meeting – confirming exactly how much they would be borrowing.

Having listened to the recording carefully, as well as considered all the other evidence and everything the parties have said, I'm not persuaded Nationwide did anything wrong.

Nationwide did have information about how much Mrs K and Mr Z wanted to borrow before the meeting began, because they'd previously applied for a decision in principle.

At the start of the meeting, the adviser said that borrowing that amount would mean that Nationwide could offer one interest rate – but if they could reduce the mortgage and increase their deposit, that would mean it could offer them a lower interest rate.

The reason for that is that Nationwide – like virtually all mortgage lenders – prices its mortgages based on loan to value. Generally speaking, as more money is borrowed as a proportion of the overall value of the property, the mortgage becomes riskier for the lender, and so it charges a higher interest rate.

Nationwide offered a slightly better interest rate if the total mortgage borrowing was 60% of the property value or less, than the rate if the borrowing was more than 60%.

It was right and proper for the adviser to point out that Mrs K and Mr Z were only just above the 60% threshold, and that if there was scope for them to increase their deposit and reduce their mortgage to bring it below 60%, that would make their mortgage cheaper. The adviser did this, and asked Mrs K and Mr Z how they wanted to proceed.

At first, Mr Z didn't understand what they were being asked. He thought that they could agree to increase the deposit from their savings, but increase the mortgage balance at the same time to replace those funds. The adviser rightly explained that this wasn't how it worked, and explained what she meant – that Mrs K and Mr Z would need to reduce their overall mortgage balance, and increase the amount they were putting towards the purchase themselves, if they wanted to bring the mortgage below the 60% threshold. After some discussion between them, Mrs K and Mr Z agreed to go ahead on the basis that they would borrow less to bring their mortgage below 60%.

I don't agree that the adviser put undue pressure on them. She explained the options, and the implications, of each, but made clear it was their choice. She did say that they would either have to make a decision there and then, or postpone the rest of the meeting if they wanted time to think about it. That's because this meeting was to agree and submit the finalised application for the mortgage they wanted. If Mrs K and Mr Z wanted the application to be submitted that day, they would need to decide which option to take. And if they wanted time to think about it, the application couldn't be submitted until they'd decided so the meeting would need to be re-arranged.

I accept Mrs K and Mr Z felt pressured to go ahead because of their wider circumstances, including not wanting to risk delay in their property purchase. But those circumstances weren't of Nationwide's making. The adviser explained that she could go ahead with the original borrowing request at the higher rate, but was giving Mrs K and Mr Z the option of reducing their borrowing to reduce the rate. She didn't pressurise them to choose one or the other – she just made clear that she wouldn't be able to submit their application until they'd decided what to apply for. Had Mrs K and Mr Z wanted to take more time to decide, I'm satisfied she would have agreed to re-arrange the meeting. And while that might not have fitted in with Mrs K and Mr Z's timetable for buying the property, it wouldn't have been appropriate for the adviser not to put the possible lower rate to them.

I understand Mrs K and Mr Z feel there was a lot of information given, and a lot of ground covered, in the meeting. A mortgage is a big commitment and a complex product, so unfortunately that's inevitable. I've not seen anything unusual or concerning about the process they were put through.

Following the meeting, the adviser sent Mrs K and Mr Z a recommendation letter which set out exactly how much they were borrowing. This would have confirmed to Mrs K and Mr Z how much of the purchase price they were contributing themselves, and therefore how much money they'd have left once the sale completed. It wasn't Nationwide's responsibility to look at their wider financial situation or advise them on their overall budgeting. Nationwide's responsibility was to recommend a suitable mortgage, and then arrange it for them (subject to their application being accepted).

Nationwide told Mrs K and Mr Z that it wouldn't be able to agree further borrowing until at least six months after their mortgage completed. Mrs K and Mr Z say that in fact it allowed them to apply after four months. I don't think this means that the advice they were given to take the mortgage they did was wrong – but once Mrs K and Mr Z decided they wanted to borrow more money, it allowed them to do so sooner. That's not unreasonable.

I'm satisfied it was reasonable for Nationwide to present Mrs K and Mr Z with the options open to them, giving them the choice of having time to think about it or go ahead with one of the options on the day. It was reasonable for Nationwide to proceed with the option they selected. And, if on reflection and having looked at their overall finances in light of the reduced borrowing Mrs K and Mr Z wanted to change their minds and take the higher amount after all they could have asked Nationwide to amend their application – but they didn't. I don't think I can fairly uphold this complaint.

My final decision

For the reasons I've given, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K and Mr Z to accept or reject my decision before 5 October 2023.

Simon Pugh
Ombudsman