Case study: Banking / Credit

DEFAULT RESIDENTIAL MORTGAGE TERMS AND CONDITIONS APPLY WHEN CUSTOMER DELAYS

Themes: Mortgage terms and conditions, effect of customer delay, default interest rates

In late 2015, the complainants received a 'Choice Form' from their FSP asking them to choose a replacement product upon the maturity of their current mortgage scheduled to occur on 31 December 2015. On the form it stated clearly that if a different product was not chosen, then a standard variable rate of 6.8% would be applied to their mortgage, a significant increase to the 4.99% rate that was on their current mortgage.

Assuming their loan-to-value ("LTV") rate was 75%, which was in fact incorrect, the complainants selected a different mortgage product from the available options and sent the form back to their FSP. However, there had been a 2-month delay between the complainants receiving the form and when they sent it back to their FSP. The form was only returned to the FSP on 1 December 2015.

Two weeks later, the FSP informed the complainants that their choice of a new mortgage product was not valid given their mistaken assumption that their LTV was 75%. The FSP attached a new form to be filled out by the complainants and warned them about the imminent mortgage expiry date of 31 December. On 31 December the complainants' current mortgage expired and with a different product not being chosen, the rate of 6.8% was activated, leading to an incremental interest cost of £615.70.

In February, the FSP received a copy of a new valuation of the property, which cost the complainants £981.75, followed a week later by a letter confirming their choice for a new mortgage. After a new 'Choice Form' was sent and received by the FSP, the new lower interest rate of 4.76% was applied.

The complainants complained to CIFO seeking to recover the £615.70 incremental interest cost they incurred and the £981.75 they paid for the new property valuation.

Conclusion

When providing his initial view on the complaint, the CIFO case handler noted that the incremental interest cost could reasonably have been avoided had the complainant returned the original choice form within a reasonable time. The complainants' delay of the mortgage renewal process led to the expiration of the mortgage product despite the FSP's repeated attempts to contact the complainants in December. Regarding the cost incurred by the complainants for the new valuation to establish their current LTV, the CIFO case handler looked to the FSP's disclosed policy regarding automatic property revaluation. In the UK it is standard practice for a property's previous value to be automatically carried forward to a renewed mortgage, however in the island this is not the case. A property valuation to establish the current LTV was required by the FSP as a pre-condition for the new mortgage and this had been clearly disclosed. The case handler decided not to uphold the complaint.

The complainants and the FSP accepted the CIFO case handler's decision and the case was closed.