Co op Bank rapped for ‘ageist’ home loan policies

The lender raised its age limit by seven years after being censured by the ombudsman for discrimination

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Peter Day was refused a loan, but was backed by the ombudsman (Mark Gough/Folio Photography)

THE “ethical” bank has been forced to pay a customer £2,000 in compensation after it “discriminated against him because of his age”.

Peter Day was only 59 when he applied to extend the term of his mortgage by five years in order to lower his monthly repayments to help him pay for the wedding of his daughter Emily.

But the Co-operative Bank turned him down purely on the grounds of his age — a decision that “appalled” Day, who has spent most of his career working in banking, including a period for the Co-op itself. He was Nationwide’s head of banking and savings operations in the 1990s.

He is the first victim of ageism who has had a complaint upheld by the Financial Ombudsman Service to speak out about his experience. Since October

2014, Money's Play Fair on Age campaign has highlighted the rotten treatment meted out to many older people by Britain's financial giants.

Earlier this month the ombudsman overruled the Co-op's decision to deny Day's mortgage extension and ordered it to pay out.

In the ruling the ombudsman said: "The Co-op hasn't shown me that it did act fairly or within the terms of the Equality Act . . . My overall conclusion [is] that the Co-op didn't treat Mr Day fairly."

It ordered the bank to pay all the fees Day incurred as a result of having to switch to another lender and £500 compensation for his "trouble and upset".

Since Day spoke to Money, and following the critical ruling by the ombudsman, the Co-op has changed its policy and extended its maximum age limit — the age by which a mortgage must be repaid — from 68 to 75. Building societies have led the way on increasing age limits in recent months.

What happened to Peter Day?

Day's mortgage was due to expire in 2017, at which point he would be nearly 63. If he extended the loan by five years, he would be 68 by the time it was repaid.

Day, who lives near Macclesfield, Cheshire, runs his own management consultancy business and was not intending to retire for many years. Even if he had unexpectedly stopped work, he had good pension arrangements, according to the ombudsman's judgment. "Affordability wasn't an issue," it concluded. In fact, Day has three final-salary pensions.

"The bank had every opportunity to assess my affordability," said Day, who held a current account and a savings account with the Co-op as well as the mortgage.

"They had not taken into account that I was a good existing customer," he said. "The Co-op has a responsibility to treat customers fairly. I find it appalling that organisations set their stall out to treat customers fairly and do not carry through in terms of their policy."

Founded in 1872, the Co-op markets itself as a bank with an ethical approach. Its website boasts that it is "the only UK high street bank with a customer-led ethical policy", adding: "We pioneer banking that makes a positive difference to the lives of our customers and communities."

Paul Green, director at the over-50s specialist Saga, said: “It should not take the financial ombudsman to make bankers see sense. If banks got to know their customers as individuals, rather than just numbers on a spreadsheet, they would understand how out of touch they are with modern Britain. The ruling is a victory for common sense.”

After being turned down by the Co-op, Day took out a nine-year mortgage with Leeds building society, on a part-capital repayment, part-interest only basis. He had to pay a fee of £1,389 to be able to switch to the new lender — though this is now being paid back as part of the ombudsman’s judgment.

The Co-operative Bank said: “We apologise to Mr Day that we were unable to resolve his original complaint to his satisfaction, leading to him referring his case through to the Financial Ombudsman Service.

“The clause within our mortgage terms and conditions that was a detriment in Mr Day’s situation has since been reviewed and changed to be more inclusive of customers and potential customers who have borrowing needs later in life.”

Why did the ombudsman rule against the Co-op?

The ombudsman’s ruling stated that the Co-op had said “it would only consider lending into retirement in ‘extreme circumstances’ where a customer can’t repay their existing loan”. Since Day could repay his loan, but chose to first free up the money to pay for his daughter’s wedding, the Co-op did not want to extend it.

When the ombudsman asked the bank to explain its decision, as well as the reasoning behind its maximum age policy, the Co-op said it “was not in the position to assess the affordability of mortgages going into retirement”.

It also cited the Equality Act 2010, which gives an exemption to financial services providers allowing them to use age as a factor in their decision-making.

However, the ombudsman rejected the bank’s view of the exemption, saying lenders “can only rely on the exemption if the risk assessment was done using relevant information from a reliable source”.

The Co-op also claimed it was “not obliged to lend, and this is a commercial decision we are entitled to make”.

In response, the ombudsman said: “This wasn’t a decision whether or not to lend to a new customer. This was a decision about how it treated an existing customer — and in doing so, it should have acted fairly.”

What are other lenders doing?

The stringent attitude to older borrowers is a result of rules introduced by the regulator the Financial Conduct Authority — which last week announced that its new chief executive will be Andrew Bailey, currently deputy governor for prudential regulation at the Bank of England.

The FCA’s mortgage market review (MMR) tightened the criteria for lenders when approving applications in an effort to make sure borrowers could genuinely afford their mortgages.

Even though the MMR did not say anything about age limits, many lenders decided to restrict borrowing on this basis and lowered the maximum age by which a mortgage must be repaid to 70 or 65. This has meant that even people in their forties have struggled to remortgage or secure new home loans.

Last year Money revealed that HSBC had become the first lender to be officially reprimanded for age discrimination, after telling a couple in their forties that they were too old to get a mortgage. The bank was ordered to pay them £500 in compensation.

The ombudsman said it had been investigating about five mortgage-related age discrimination cases a month for the past year, though it added that many more people have their cases resolved without a formal investigation.

The ombudsman said: “Mr Day’s case is pretty representative of our approach to these cases.”

Aaron Strutt of the broker Trinity Financial said: “The banks have not increased their maximum age allowances to reflect that people are working for longer, and this is forcing them to take often more expensive rates through the building societies.

“Many older borrowers find it almost impossible to secure a mortgage with the high-street banks because the criteria is so strict and it changes so dramatically from lender to lender.”

Several industry bodies, including the Council of Mortgage Lenders, have called for change. Sue Anderson of the council said: “While lenders need to design products and criteria that work for older borrowers, regulators also have a part to play in supporting the development of this market by ensuring that regulatory barriers are minimised."

In November the Building Societies Association (BSA) published a report on lending in retirement that called for change in the industry.

As a result, all 44 mutuals pledged to review their age limits — and some have already raised them or scrapped them altogether.

Paul Broadhead, the head of mortgage policy at the BSA, said: "Building societies are leading the way when it comes to lending into and in retirement. Since the publication of our report, we have seen a number of societies increase the maximum age to which they lend. We expect others to follow suit over the coming weeks and months.

"Throughout this year we will be working closely with regulators, the government and other stakeholders to ensure that lending rules do not stifle innovation in this area. We must also ensure that changes to the way people utilise their pension pots do not cause challenges when meeting the affordability rules that govern mortgage lending. A more holistic approach to providing advice would help greatly."

High house prices and the increasing difficulties of getting a mortgage have led to a steady rise in the age at which young people are able to get on the property ladder. At the same time, more and more people are taking out longer mortgage terms of 30 or 35 years.

This means many first-time buyers will be borrowing into their sixties. The average age of a first-time buyer is 30, according to the Council of Mortgage Lenders.

Your story

Have you had similar problems obtaining a mortgage?
Email money@sundaytimes.co.uk

The ombudsman's verdict on the Co-op

The Co-op's decision not to consider an extension to Mr D's mortgage term was because of his age.

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