

The complaint

Mr and Mrs J complained because Barclays Bank UK PLC refused to allow them to extend the term on their interest-only mortgage.

What happened

In around 2008, Mr and Mrs J took advice from a broker who recommended that they should take an interest-only mortgage with Woolwich, which was a part of Barclays Bank. They received a mortgage offer with a 10 year term. The offer document said that the broker had recommended they should take out this mortgage. The offer also set out that the capital would still be outstanding at the end of the term, and said *"It is important to ensure that you have a suitable savings plan in place and to check regularly that your savings plan is on track to repay this mortgage at the end of the term."* Mr and Mrs J completed on their £720,000 mortgage on 2 August 2010.

In December 2017, Mr and Mrs J applied for a 10 year extension to their mortgage term. The application form they completed said *"sale of mortgaged property"* as the repayment strategy, and also said they had shares which they would use. Mr and Mrs J said that the adviser asked what the original plan had been to pay off the mortgage. She hadn't believed him when he'd said it was to sell shares in a company that Mr J part-owned – and she'd only been willing to put selling the house as the repayment strategy. Mr J said he agreed because he knew he could pay off the balance in another 10 years by the sale of shares, savings, earnings, investments, and inheritances.

In January 2018, Barclays refused the application to extend the interest-only mortgage term. The letter said *"The main reason for this decision is that your income is insufficient to support the level of borrowing you have requested."* Barclays has explained that when it checked the declared self-employed income, by looking at trading accounts and tax calculations, its underwriters could see that the income declared wasn't sustainable. So the application fell outside its lending criteria.

The mortgage term ended in August 2019, and Mr and Mrs J weren't able to pay off the mortgage. In the various discussions with Barclays, Mr J said he had shares which were worth around £5 million, but he hadn't yet liquidated them and didn't want to. The shares weren't in companies listed on any stock market. He also said he was thinking of re-mortgaging elsewhere, and that he would consult his independent financial adviser. Mr J also said that in a year he'd be receiving a salary of £150,000.

In late 2019, Barclays referred the matter to its Wealth team. But the Wealth team told Mr J that it couldn't help because the shares Mr J had referred to weren't floated on any stock market, and he didn't draw funds from any of the companies.

In early 2020, Mr J told Barclays that he hadn't been able to get an equity release deal, nor had he been able to re-mortgage elsewhere. He asked Barclays for a six month extension so he could work on getting the companies listed on a stock market. Barclays agreed to a short-term *"breathing space"* to May 2020, but warned about possession litigation if there was no acceptable proposal by then.

In May 2020, Mr J told Barclays that his business, which was in the leisure industry, was on hold because of the Covid pandemic. He complained, saying that during the original application through a broker, he'd been told that he'd be able to extend the mortgage by 10 years.

Barclays didn't uphold Mr and Mrs J's complaint. In its final response, it said it wasn't able to extend their mortgage term by a further 10 years. It said it could no longer contact the original Woolwich mortgage contact. It was correct for them to have said that when a maturity date approaches, a customer who couldn't pay off the balance could apply for an extension. But this would have to be reviewed and assessed to ensure it met lending criteria.

Mr and Mrs J weren't satisfied and contacted this service. They said the original mortgage had been mis-sold, and they were now being asked to sell their home. They said that Barclays hadn't taken the Covid situation into account, and the difficulties the leisure industry was suffering. They said theirs was a very reasonable request and they didn't understand why Barclays was refusing the 10 year term extension.

Our investigator pointed out that as the original mortgage had been sold by a broker, any complaint about mis-selling should be against that broker. So he just looked at the complaint about Barclays' refusal to agree to a 10 year extension, which he didn't uphold.

The investigator explained that lending regulation had changed since Mr and Mrs J took out the mortgage. While Mr and Mrs J's extension application might not be approved because of tighter lending controls, Barclays had to consider what would be in Mr and Mrs J's best interest. And to do that, Barclays would need to carry out an income and expenditure assessment.

Barclays had reviewed the application with the information provided – but the investigator didn't think this had been an accurate reflection of Mr and Mrs J's circumstances or plans. The investigator noted that Mr and Mrs J had said they stated sale of the property as the repayment vehicle – but they'd never intended to do this.

The investigator said he was satisfied that Barclays hadn't acted unfairly in declining Mr and Mrs J's request. He said that both sides should keep an open dialogue.

Mr and Mrs J didn't accept the investigator's view. They said the reason they'd said they would sell the house as their repayment strategy was because that was the only thing that Barclays would consider when they'd asked for the extension. They disputed that they hadn't given accurate information. They said that equity release would leave a large shortfall that they couldn't currently cover, though they'd be able to within two to three years.

The investigator replied that the complaint had been solely about the term extension request for 10 years, and he didn't think Barclays had acted unfairly in refusing this. He pointed out that a request for a two to three year extension would have to be put to Barclays for it to consider, and wasn't something this service could negotiate.

Mr and Mrs J asked for an ombudsman decision. They said they didn't understand and couldn't accept that Barclays hadn't acted unfairly. They said they'd given Barclays accurate information, including the fact that the original repayment plan had been to sell shares. Mr J said he'd always been clear that his salary had always been minimal, as he only paid what he needed. He said he would pay himself more if he had to in order to qualify for a mortgage extension, but he'd need six months to arrange this.

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.

First, I confirm that I can't consider Mr and Mrs J's complaint that the original mortgage was mis-sold. The original application form clearly shows that a broker recommended that Mr and Mrs J should take out the mortgage, so any complaint about mis-selling should be directed to that broker. So what I've considered is Mr and Mrs J's complaint about Barclays' refusal of their request to extend their interest-only mortgage term by a further 10 years.

After the 2008 financial crash, the Financial Conduct Authority conducted a Mortgage Market Review (MMR), and new rules came into effect in 2014. These made lenders responsible for ensuring mortgages were affordable. Stringent checks were introduced, including more rigorous affordability assessments, and more rigorous assessment of interest-only mortgages. The new rules applied not just to applications for new mortgages, but also to existing borrowers who wanted to make changes to their mortgage – as Mr and Mrs J did, when they applied to extend their interest-only mortgage term by a further ten years. So Barclays has a duty to take these stricter rules into account when considering Mr and Mrs J's request.

Under the rules, it was therefore fair for Barclays to carry out a full affordability assessment. There is also a provision for taking into account the borrowers' "*best interests*." This assessment depends on individual circumstances, and it isn't necessarily the same as what the borrower asks for. I'd point out that it's only really in borrowers' best interests to extend a mortgage term, if it allows them to realise a robust and well-defined plan to repay the capital. Otherwise, they would just be paying more interest over a longer period, which wouldn't be in their best interests.

The starting point of a mortgage which has reached the end of the term is that the mortgage has to be repaid. And it's fair for the lender to expect that to happen. Lenders and borrowers are both expected to engage to resolve the problem.

In view of these rules and guidance, I've looked in detail at the contact between Mr and Mrs J and Barclays, from the time of their 2017 application for a term extension.

I consider that Barclays acted fairly when it refused the 2017 application for a term extension. On the information which was put on that application form, and the checks Barclays was entitled to carry out, including looking at trading accounts and tax calculations, it decided that Mr and Mrs J's income wasn't sustainable. Barclays was entitled to conduct such checks, and to accept its professional underwriters' view that such lending was outside its lending criteria.

I've also looked at the multiple discussions which took place from 2017 onwards. I can see that Mr and Mrs J said they were going to contact an independent financial adviser, and that they investigated re-mortgaging elsewhere but weren't able to do so. They also considered equity release, but this wasn't feasible because it would leave a shortfall. As I've set out above, Barclays also referred the case to its Wealth team, but they too weren't able to suggest a workable solution.

What Mr and Mrs J told Barclays they rely on is the sale of company shares. But Barclays pointed out that these aren't quoted on any stock exchange. I note that Mr J talked about floating on a stock exchange abroad at some future point, but I can understand that this wouldn't be a sufficiently robust or well-defined plan for Barclays to accept it as a definitive repayment strategy. Mr J has also suggested that he should start to pay himself a salary of £150,000 pa, provide six months of payslips and that would make the £720,000 mortgage affordable. It would be up to Barclays to take a decision on this proposal, if Mr J decides to

do that. But I'd point out that in order to make a responsible lending decision, as required by MMR, Barclays would look at whether this level was sustainable throughout the proposed extra 10 year term, based on the company's trading. It wouldn't just take a £150,000 salary as evidence of affordability.

Finally, Mr J said that as his business is in the leisure industry, it's been badly affected by the Covid pandemic. I'm sorry to hear about the difficulties. But the key events in this complaint, including the application to extend the mortgage term, Barclays' assessment that this wasn't acceptable, and the end of the mortgage term, all happened before the Covid pandemic. I can see that there were ongoing conversations about the extension in May and June 2020, before Mr and Mrs J complained. I can see that Barclays was giving some breathing space to consider options, before it took action. I think that was fair, and ultimately doesn't impact the reasonableness of Barclays' decision to decline the term extension.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs J and Mr J to accept or reject my decision before 4 January 2022.

Belinda Knight
Ombudsman