

The complaint

Mr K complains that he was mis-advised over a buy to let mortgage product and unfairly refused extra borrowing with Barclays Bank UK PLC. Mr K wants to be compensated for the distress and inconvenience and the financial loss he has suffered.

What happened

Mr K applied for renewal of his mortgage product with Barclays in December 2020 and wanted additional borrowing of £65,000 for improvements on his buy to let property. Mr K's existing mortgage product would expire on 31 January 2021. A formal assessment was conducted for additional borrowing and he got a provisional acceptance. Then whilst processing the application in early January, a Barclays advisor told Mr K that due to a bank's internal system issue, he would have to wait until his mortgage product expired in February 2021, when Barclays would change his record to the new system and then he could apply for additional borrowing. Mr K says that he raised concerns and enquired about the risks for doing this but was given assurance by the advisor that the borrowing will be successful as he had been given provisional acceptance.

But when Mr K moved to the new product early Feb 2021, the additional borrowing application was refused. When Mr K asked why he was told that this was due to affordability. The mortgage advisor gave Mr K detailed information only after the refusal. Mr K enquired about the financial information recorded on the application, as he believed that Barclays had not recorded the correct salary and bonus on the application. But the advisor refused to update and said that he was already above the required income level. Mr K says he was advised by the mortgage advisor that he would be able to switch to a new product as he was within the 15 days cooling off period but when he applied to move from the product the bank decided not to revoke the product and he would be forced to pay a £10,400 early repayment charge ("ERC"), if he wanted to move to another product.

Barclays says at the time of Mr K's application it offered two options to Mr K. Firstly he could complete a rate switch on his mortgage to a five-year rate of 2.45% and then complete an application for a further advance. Alternatively, Mr K could let his mortgage go onto the standard variable rate ("SVR") and then the rate switch could take place. It said that a buy to let mortgage is non-advised and Mr K completed the rate switch before making the further advance application. But the further advance application then failed due to affordability. Barclays didn't believe that it had done anything wrong.

Our investigator recommended that this complaint should be upheld. She felt that Barclays mortgage adviser told Mr K that affordability was fine and may have been unaware that further lending couldn't be given on the old system. The mortgage adviser had told Mr K that she asked for the mortgage product to be revoked but this didn't appear to have been actioned. Our investigator's view was that if Mr K had known affordability would have been an issue that he would have gone to another lender to secure additional borrowing and not committed to a fixed product with an ERC. Our investigator recommended that Barclays either revoke the product or waive the ERC and pay Mr K £250 for his distress and inconvenience. Barclays accepted our investigator's findings and whilst it couldn't revoke the rate applied said that it would refund any ERC payable if Mr K moved to another lender. Mr

K disagreed and believed that the compensation should be increased as certain issues weren't considered by our investigator.

The complaint was reviewed, and a new investigator recommend further compensation to reflect the differences between the five-year products - of £48.38 per month - that Mr K could have chosen and £350 to reflect Mr K's upset. Our investigator also asked Barclays to provide Mr K with a two-month period to allow him to exit the mortgage if he wished. Barclays accepted this recommendation. Mr K disagreed saying in summary that £350 doesn't reflect the size of the error that Barclays made.

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.

This is a substantial file which I've read carefully. I will not be referring to every point that was made in the course of the complaint but concentrating on the significant parts of the complaint. But I thank Mr K and the bank for the information they provided to allow me to come to a fair decision.

Our investigator reached the conclusion that Barclays was at fault in this complaint by giving Mr K to understand that if he fixed a rate on his existing mortgage and then applied for further borrowing that the application would be successful. Although Mr K fixed a rate on his existing borrowing, Barclays refused him the additional borrowing. So, Mr K had a problem being tied into a fixed rate product for five years and having to pay an ERC if he wanted to exit and get the additional borrowing. I note that in its email to us that Barclays accepts our investigator's conclusions. Two issues appear to remain. Firstly, did Barclays act fairly in refusing the additional borrowing and secondly what compensation would be due to Mr K because of Barclays' error.

To test whether Barclays refusal of the additional borrowing was fair we obtained further information from Barclays. I note that Mr K felt that the application was failed because Barclays hadn't considered all his income including his bonus. Barclays completed for us an affordability assessment on Mr K based on all his income and commitments on the assumption Mr K received his annual bonus, but the calculation showed that the case would fail Barclays personal solvency review. So, I consider that Barclays refusal of the additional borrowing was fair.

The other issue is to put Mr K in the position he would have been had Barclays not misinformed him about how they would treat the application. On the basis that he would obtain additional borrowing and so increase the LTV Barclays offered Mr K a fixed rate of 2.45% rather than the lower rate of 2.25% fixed for five years. The alternative for Mr K would have been to go elsewhere for the additional borrowing but the documentary evidence produced by Mr K indicates that the lowest rates available for a five year fix with the additional borrowing would be 2.69% assuming that the lender would lend the amount that Mr K would want to borrow. Mr K says that he could have moved to a cheaper two-year fix with Barclays, but it was clearly Mr K's preference to have a fixed rate for five years. So, I believe that an appropriate amount of compensation for this is the financial loss Mr K suffered by being on the 2.45% mortgage product rather than the 2.25% one for the five-year period. The difference between these is a monthly payment of £48.38 and that should be refunded for the period of the fixed rate.

Mr K also says that as he was refused the extra borrowing, he could not complete the works he intended to do with the extra borrowing as the costs of doing these has increased. Mr K wants to be compensated for the inflation in material costs as result of Barclays error. There is an issue as to whether the substantial inflation in material costs was a reasonably foreseeable consequence of Barclays making this error. It's one thing to say that material costs have risen but another to say that both parties would have realised when they were doing the deal that if Barclays caused an error that it should be held liable for the inflation in building materials.

But in any case, I've seen no compelling evidence that Mr K would have been able to obtain the borrowing that he needed for the work elsewhere. As that is the case, I can't say that Mr K lost out because of inflation as I'm not convinced that he could have got a loan of this money from another lender before prices began to rise. I note that our investigator view was similar and in the intervening period Mr K has produced no further supporting evidence. So, I don't agree that Mr K should be compensated for the rise in the cost of materials to complete the work.

That said I believe that Barclays error caused Mr K a degree of distress and inconvenience. Our role is not to punish a bank for its errors but to compensate Mr K for the impact this would have on him. So, the degree of error that the bank makes isn't the significant factor but the impact on Mr K. I recognise that Mr K must have been disappointed with Barclays failure to provide the additional borrowing that he expected to get and the inconvenience that this would have caused him. Although Mr K has had an unfortunate time with family bereavements and other issues, he is a person involved in business and banking who would be expected to deal with a certain level of inconvenience and the ups and downs of business. I have to assess what the level of that disappointment and inconvenience would be. My view is that compensation of £350 is fair in the circumstances. I can see that Mr K has spent a lot of time in processing this complaint, but we don't usually provide compensation for that time.

As I say above, I also agree that Barclays should refund the difference between the 2.25% five-year mortgage product and the 2.45% mortgage product which I believe is £48.38 per month. Mr K should have the opportunity to exit the mortgage product within a two-month window without payment of the ERC.

Putting things right

Barclays Bank UK Plc should pay Mr K compensation of £350.

In addition, it should compensate Mr K for the £48.38 that Mr K pays each month during the five-year term of the fixed product that represents the difference between the 2.25% product and the 2.45% product. In respect of payments already made, Barclays should refund those monthly excess payments together with interest at 8% simple pa from when the payments were made until they were refunded. If HMRC requires Barclays to deduct tax from this interest it should give Mr K a certificate showing how much tax it has deducted if he requests it. Barclays should reduce the future monthly payments during the five-year period by £48.38.

If in the two months following the date of this decision, Mr K redeems his mortgage to take advantage of a similar mortgage with another lender, Barclays should not charge Mr K an ERC.

My final decision

My decision is that I uphold this complaint and require Barclays Bank UK PLC to pay the

compensation set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 1 November 2022.

Gerard McManus
Ombudsman