

The complaint

Mr B and Mrs P have complained that Barclays Bank UK Plc misled them about the value of their property. As a result, they decided to rent it out, convert the mortgage to interest-only, release equity and then purchase another property. Barclays later substantially down-valued the property and refused the switch to interest-only – after Mr B and Mrs P had already rented it out. They are asking Barclays to compensate them for their losses.

What happened

I will summarise the complaint in less detail than it's been presented. There are several reasons for this. First of all, the history of the matter is set out in detail in correspondence, and in the investigator's letter dated 10 March 2022. All parties have a copy of that letter, so there is no need for me to repeat the details here. I will instead concentrate on giving the reasons for my decision. What happened really isn't in dispute, as Barclays has accepted it made numerous errors. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr B and Mrs P being identified. So for these reasons, I will keep my summary of what happened quite brief.

Mr B and Mrs P had a capital repayment mortgage with Barclays, originally taken out in 2014. They've switched to new interest rate products several times since, the last time in 2020 when they switched the balance of just over £430,000 onto a fixed rate of 1.26% that ran until 31 July 2022.

In 2021 Mr B and Mrs P were thinking about moving and porting (transferring) the interest rate product onto a new mortgage on another property. They spoke to Barclays and were advised, much to their surprise, that Barclays thought their property was worth £870,000. Mr B and Mrs P had thought the property value was about £300,000 less than this. They were also told that they'd be able to convert the mortgage to interest-only with no problem.

As a result of what Barclays had told them, Mr B and Mrs P re-thought their plans. Instead of porting the mortgage, they decided to keep it in place, obtain permission to let (PTL), switch the mortgage to interest-only, and move into rented accommodation while they looked for a new property.

Barclays granted PTL on 15 April 2021, but failed to tell Mr B and Mrs P at that point that, once PTL had been granted, they wouldn't be able to switch the mortgage to interest-only at a later date. In order to switch the mortgage to interest-only a valuation was needed to ensure that the mortgage met Barclays' lending criteria. The bank would only agree to a switch to interest-only if the loan-to-value ratio (LTV) was 50% or lower.

However, when the valuation was carried out a month later, the property was valued at £495,000, not the £870,000 Barclays had told Mr B and Mrs P the property was worth. By this time, Mr B and Mrs P had already rented out the property and moved into rented accommodation. They complained to Barclays.

After looking at what had happened, Barclays upheld the complaint. The bank acknowledged Mr B and Mrs P had been given incorrect information and paid them compensation of £650 for distress, inconvenience and the time taken to “resolve” the complaint.

Mr B and Mrs P said the complaint wasn’t resolved at all, and brought it to our service. An investigator looked at what had happened. He found that Barclays should have told Mr B and Mrs P before PTL was granted on 15 April 2021 that they wouldn’t then be able to switch the mortgage to interest-only. Mr B and Mrs P would not then have gone ahead and rented out the property.

The investigator didn’t think Barclays was required to switch the mortgage to interest-only on a permanent basis. That’s because Mr B and Mrs P didn’t meet Barclays’ lending criteria. But he thought the bank should grant a 12-month interest-only concession to give Mr B and Mrs P some breathing space to decide what to do next. He also thought the bank should increase compensation by a further £350 to £1,000.

Mr B and Mrs P accepted the investigator’s findings, but Barclays did not. To summarise, the bank said that Mr B and Mrs P would never have met the bank’s interest-only criteria due to the LTV based on the actual valuation of the property. Barclays also said that, as this is a repayment mortgage, Mr B and Mrs P have benefitted from the reduction in the capital balance as a result of making payments on that basis. Barclays also said that Mr B and Mrs P are enjoying the benefit of rental income and that it was their choice to rent a property in a more expensive area of the country.

Because the matter is unresolved, it falls to me to issue a decision on the matter.

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.

Barclays has acknowledged it made mistakes here, and I have identified two major errors.

The first is in relation to Mr P and Mrs B being told by Barclays that the bank thought their property was worth £870,000 and that, as a result of this, they’d be able to switch their mortgage to interest-only.

I can see in its internal notes that, in relation to the valuation of £870,000, the bank says: *“The advisor may have derived that figure from the rate switch valuation tool which we have no ownership over and we continue to see these issues arising as a result ... Advisors/brokers should not be using the tool to gauge a property’s estimated value or disclosing this info to applicants as a physical inspection offers more accuracy and will be aligned to more recent comparable sales date in the area...”*

However, it appears that Barclays’ advisor wasn’t aware of this when Mr B and Mrs P were told by the bank that their property was worth £870,000. Had that valuation actually been accurate, then a switch to interest-only would have been possible, as the LTV would have been below 50%, and Mr B and Mrs P wouldn’t have made the decisions they made in reliance on that incorrect advice.

The second mistake is when, at the point when Mr B and Mrs P were applying for PTL on 15 April 2021, the bank failed to tell them that if they went ahead with this they wouldn’t then be able to switch the mortgage onto interest-only.

I'm satisfied that if Barclays had explained this, Mr B and Mrs P wouldn't have gone ahead with renting out their property. They only did so on the basis that they'd been led to believe by Barclays that the switch would be allowed.

I think if Barclays hadn't made these errors, Mr B and Mrs P would have made different decisions. There is no logical reason why they'd have gone ahead with renting out their property on a capital repayment basis and then also paid rent on another property if they hadn't thought they could switch the mortgage onto interest-only.

However, I can't order Barclays to switch the mortgage over to interest-only on a permanent basis. This is because Mr B and Mrs P don't meet the criteria for an interest-only mortgage, due to the actual LTV on the property. They have no other repayment vehicle than a sale of the property and so would need to have a LTV of 50% or lower in order to qualify for an interest-only mortgage.

But I'm satisfied that Mr B and Mrs P relied on incorrect information from Barclays to make decisions that ultimately cost them money. I think in relation to the valuation Mr B and Mrs P ought to have realised that Barclays' valuation of £870,000 for a two-bedroomed flat in that area was grossly over-stated. But I think the bank's main error was failing to point out that (notwithstanding any issues relating to the valuation) a switch to interest-only wouldn't be possible once PTL had been granted.

Barclays could – and should – have given Mr B and Mrs P this information before PTL was granted on 15 April 2021, and if they'd known this, I'm satisfied they wouldn't have gone ahead and rented out the property. As a result of the incorrect advice, Mr B and Mrs P made decisions that I'm satisfied they would not otherwise have made, and have suffered loss as a result. They've been paying a repayment mortgage and rent on another property, when they'd been led to believe by Barclays that the mortgage would be switched to interest-only, with substantially lower repayments. This influenced their decision to move into rented accommodation.

I'm satisfied that the consequences of Barclays' incorrect advice hasn't been properly redressed by the bank. Although I note what Barclays has said about the benefits it claims Mr B and Mrs P have had through renting, and in capital reduction of the mortgage balance, I'm satisfied that they have had no benefit. The reduction in the mortgage balance has been negligible when offset against the cost of renting. As I said above, Mr B and Mrs P wouldn't have rented their property out or moved into rented accommodation if Barclays had given them the right information at the outset.

Putting things right

I agree with the investigator that Barclays needs to do more to put things right. I think a 12-month interest-only concession is fair in the circumstances and it should run from the date of acceptance of this final decision. This will give Mr B and Mrs P time to think about their plans, take advice and, if necessary, give notice to their tenants and/or their own landlords.

The mortgage interest rate product came to an end in July 2022. If a new product hasn't already been taken out, Barclays should arrange, fee free, a new interest rate product if Mr B and Mrs P want this. In this regard, Mr B and Mrs P will need to bear in mind that there is likely to be an early repayment charge on any new interest rate product, in case they plan to sell their property during the period any fixed rate applies.

Barclays must also pay an additional £350 compensation for distress and inconvenience, bringing the total compensation to £1,000.

My final decision

My final decision is that I uphold this complaint. I direct Barclays Bank UK Plc to settle the complaint as detailed above.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any correspondence about the merits of it.

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

Jan O'Leary
Ombudsman