

## **The complaint**

Ms D complains that Barclays Bank UK PLC reneged on its offer to permanently change her mortgage from a capital and interest basis to interest only. To put things right, Ms D wants Barclays to change her mortgage back to interest only permanently.

## **What happened**

Ms D took an offset repayment mortgage with Barclays in late 2018. The rate she selected was variable for two years. The mortgage had an 18-year term.

In April 2020, Ms D contacted Barclays as she was having financial difficulties due to the coronavirus pandemic. Barclays agreed to switch her mortgage from capital and interest payments to interest only payments for a 12-month period.

In October 2020, Ms D spoke with a Barclays advisor regarding a new mortgage rate. The advisor discussed Ms D's existing mortgage and what she wanted for the future. The advisor recommended a mortgage rate that was fixed for seven years with a monthly payment of £391.30.

Ms D took a fixed rate until 31 January 2028. A new mortgage product offer was produced with details of the new rate. This offer explained that Ms D had an interest only mortgage for 16 years and two months. Ms D says she believed that this meant her mortgage had now been permanently changed to an interest only basis.

On 8 July 2021, Barclays wrote to Ms D explaining that it was changing her mortgage from interest only to a repayment basis. This increased the monthly payment to £1,781.48. Ms D complained to Barclays saying her mortgage had been permanently switched to interest only and she wasn't able to afford the new payment on a repayment basis.

Barclays responded to Ms D's complaint. It explained that the switch to interest only had only been agreed for a 12-month period and the offer for a new product was based on this temporary agreement, not a permanent change. Barclays agreed the wording of the offer could be misleading and offered Ms D £300 compensation.

Ms D didn't accept this and referred the complaint to us. Since then, Ms D has maintained interest only payments and because of this Barclays has reported Ms D's account as in arrears.

One of our Investigators looked into the complaint. She initially thought Barclays should honour the interest only mortgage for the remainder of the mortgage term. She agreed that £300 was fair compensation for the distress and inconvenience this matter had caused. Our Investigator noted that Ms D's credit card limit had been reduced as a result of this and recommended Barclays review this as well.

Ms D accepted this, but Barclays didn't. Barclays responded in detail. In summary, it said that Ms D would need to go through a full application to see if she was eligible for a

permanent switch to interest only. Barclays agreed to waive the early repayment charge (ERC) on the fixed rate Ms D had taken if she chose to move to another lender.

Our Investigator looked at things again and changed her opinion. She said Barclays should consider Ms D's application for a permanent switch to interest only and grant it if the application was successful. She said that in the event if wasn't successful Barclays should treat Ms D's account as having been on interest only to date and amend her credit file to reflect that the payments were up to date. She recommended Barclays then allow Ms D a further three months of interest only payments in order to move her mortgage to a new lender and waive the ERC. Our Investigator maintained that £300 was fair compensation for the distress and inconvenience in the circumstances, and that Barclays should review the reduction in Ms D's credit card limit.

This time, Barclays accepted the Investigator's opinion, but Ms D didn't. Ms D said she had made decisions around her personal and professional life on the basis that her mortgage was now on a permanent interest only basis. She said she believed the mortgage offer for the fixed rate on interest only was legally binding and Barclays was legally bound to honour this.

Our Investigator wasn't minded to change her opinion. So, the complaint has been passed to me to decide.

I set out my initial thoughts to Barclays explaining that I thought a fair compromise would be for Barclays to honour the interest only concession for the remainder of the fixed rate. Barclays didn't agree.

I issued a provisional decision on 18 October 2022. In this, I made the following findings:

*The letter sent by Barclays to Ms D in April 2020 advising her that her account had been switched to interest only also explained this was a temporary switch for 12 months. Unfortunately, Barclays has been unable to provide a copy of the call where this was agreed. However, Barclays has provided contact notes from the time which also suggest this was agreed for a 12-month period to assist Ms D due to the impacts of the covid-19 pandemic.*

*Ms D doesn't seem to dispute that the switch to interest only was originally agreed for 12 months. So I'm satisfied that all parties were aware that when the existing mortgage was switched to interest only, it was for a 12-month basis.*

*What is in dispute is whether, in October 2020, when Ms D changed to a new mortgage product, Barclays made the change to interest only a permanent one. Ms D says it was, Barclays says it wasn't. I've gone on to consider this point below.*

*When Ms D spoke with a mortgage advisor in October 2020, she wanted to change her mortgage product. Ms D says she also wanted to make the change to interest only permanent. This was a long and detailed conversation which Barclays has provided a recording of. The advisor's role here was to recommend a suitable mortgage product for Ms D, and I think when doing so, the advisor should've taken into account the repayment type of the mortgage. Ms D doesn't specifically say that she wants to make the change to interest only permanent. But, having listened to this call, it's clear from the discussion with the advisor that the advisor believed that Ms D's mortgage was on a permanent interest only basis. And it seems the advice was based upon that.*

*Barclays' advisor discussed how Ms D would repay the mortgage at the end of the term and was clearly happy with Ms D's repayment strategy of selling the freehold of another*

property she owned. The advisor also told Ms D that she would need to sign an interest only declaration to explain that she understood she was responsible for repaying the balance at the end of the term. I understand this was signed and returned by Ms D. So, whilst Ms D may not have specifically asked to make the change to interest only permanent in this call, I think she was led to believe by Barclays' advisor that this was in fact happening and that's what she was applying for in addition to a new fixed rate.

I've also reviewed the mortgage product switch offer from Barclays. This clearly sets out that the mortgage is on an interest only basis. There is no mention that the mortgage will revert to a repayment basis at a later stage.

I'm satisfied that Ms D was initially aware that the interest only concession was limited to a 12-month period. However, following the discussion Ms D had with the mortgage advisor and the mortgage product switch offer, I can understand why Ms D believed that the mortgage had been permanently switched to interest only. And I think it was Barclays that led her to believe this.

Ms D says that Barclays has legally changed her mortgage to interest only so is bound to honour that. I can see why she would think that – she was sent a product switch offer saying she had an interest only mortgage, so she expects Barclays to give effect to that agreement. Whether as a matter of contract law Barclays issued a new contract on interest only terms, or varied the existing contract to interest only terms, and is therefore bound by it, is ultimately a matter for a court to decide. But as part of deciding what's fair and reasonable in all the circumstances I'm required to take into account, among other things, relevant law. And I do think that it's at least arguable that a court might find that Barclays did agree to a new contract or contract variation on interest only terms – and is therefore bound by that.

I've taken that into account. But I also have to consider the wider regulatory rules around mortgage lending and changes to existing mortgages, as well as what's fair and reasonable in all the circumstances. That includes what happened in October 2020, but it also includes the position Ms D is left in if the mortgage is or isn't switched to interest only permanently. So the question of whether, as a matter of technical law, Barclays is bound by the terms of the product switch offer is only one factor for me to consider.

I've thought about what Ms D would've done had it not been for Barclays leading her to believe that her mortgage was on a permanent interest only basis. It's clear that Ms D can't at this stage afford to make payments on a repayment basis and hasn't been able to do so since April 2020. I think it's likely that had Barclays made it clear that Ms D's mortgage was still only on interest only for a limited term she would've either applied to Barclays for a permanent switch to interest only or, if this was declined, looked to move to other lenders.

Barclays has offered to waive the early repayment charge on the fixed rate on Ms D's mortgage if she moves elsewhere. However, I don't think this is a suitable remedy. Interest rates have significantly increased since Barclays' error. And Ms D will not be able to get an interest rate with another lender which is near the level of what was available at the time. Ms D has also told us that she's made decisions regarding her work which have affected her income on the basis that she now had an interest only mortgage. Furthermore, Barclays has been recording Ms D's account as in arrears because it believes her mortgage has switched back to repayment terms, but she has only been paying the interest from what I understand. This means it's highly unlikely another lender will offer her a mortgage anyway with these arrears showing.

*As I've said, Ms D has also told us that she's made various decisions around her business, and personal life, in reliance on the belief that she had an interest only mortgage for the remaining term of her mortgage following the phone call with the advisor and the new mortgage offer in October 2020. These included focusing on growing her self-employed business and not looking at employed roles which she says she may've done had she known her mortgage would significantly increase six months after taking the fixed rate. Clearly, these decisions are not easily undone.*

*Putting Ms D in a fair situation is difficult. Barclays is correct in that it should assess whether interest only is suitable for a customer before offering it and this must include having a viable method of repaying the mortgage at the end of the mortgage term. But, based on what Barclays has told us about its criteria, and what Ms D has told us about her current situation, it's unlikely that Ms D will meet – or would have met at the time of the rate switch – Barclays' criteria for a permanent change to interest only.*

*Barclays has made an error and given misleading, and arguably incorrect, information. But that doesn't necessarily mean it's fair to say that it should therefore be bound by this. If it were to permanently switch the mortgage to an interest only basis until the end of the term, Ms D may find herself unable to repay the balance. And Barclays does have a duty to ensure she does have a means to repay it.*

*Ms D has said she still has the freehold of another property which she can sell. I don't know what this is worth or how easy it may be for Ms D to sell. But, Ms D has also provided us with an updated valuation of her property. Based on this she has a loan to value of around 30%. This means that selling her property and downsizing (or moving to her other property) is also a feasible option for her to repay the mortgage if sale of the other property is not sufficient.*

*I think the first step should be for Barclays to fairly consider Ms D's request to change her mortgage to interest only. Whilst I recognise Ms D doesn't wish to go through this process, I think it's right that she does. And she will need to cooperate with Barclays' process, including providing any information it requires. If, as I think is likely, Barclays isn't able to offer Ms D a permanent switch to interest only, then I'm going to direct Barclays to change Ms D's mortgage to an interest only basis until the end of the fixed rate.*

*I recognise that this isn't an ideal situation for either party. This will also mean that in around five years' time, Ms D's mortgage payment will increase as it reverts back to repayment. And, given that there will be less time remaining on the mortgage term, Ms D's payments will be higher than they would be now if the mortgage were to switch to repayment now, or had switched back in April 2021 in line with the original agreement. If Ms D's situation doesn't improve, then she won't be able to afford these repayments.*

*However, this compromise gives Ms D breathing space, and plenty of time for either her situation to improve, such as an increase in her self-employed income, or for her to make alternative plans, such as to sell her other property to reduce the balance to an affordable level.*

*As I've already explained, Ms D's told us that she has a repayment vehicle which involves the sale of a freehold she owns. It may be that she will need to do this when the fixed rate ends. However, she's also told us that she's building her business. So, it's also possible that she may be able to afford to change to repayment when the fixed rate ends (or sooner should she decide to). She may decide that she wishes to downsize to repay the mortgage. She may be able to apply to Barclays to extend the term. Lastly, she may at this stage look at other lenders who may be able to offer her an interest only remortgage. In*

*short, giving Ms D this interest only extension will give her time to make plans and look at other options. I think this is a fair and reasonable compromise in the circumstances.*

*Barclays should also backdate this concession to when it first changed Ms D's mortgage back to repayment. I understand that Ms D has continued to maintain interest only payments towards her mortgage. So, Barclays should ensure that its internal records and anything it's reported to external credit reference agencies is amended to reflect that the account was on an interest only basis.*

*With regards to the reduction in Ms D's credit card limit, I'm minded to tell Barclays to review this had it not been for arrears showing in relation to her mortgage. If, it would still have taken this action, then this is a decision it's entitled to make. However, if the reason that Barclays reduced the credit limit was solely down to the arrears on the mortgage, it should reinstate this.*

*I've thought about the amount of compensation our Investigator recommended for the distress and inconvenience this matter has caused. This has been going on for around two years now. The matter is not resolved and has clearly had a significant impact on Ms D. Her mortgage has been showing as in arrears on her credit file, and her credit card limit has been reduced. Ms D did initially know that her mortgage was on a temporary interest only concession, as I've explained, Barclays did lead her to believe this change had been made permanent only to later find out this was a mistake. Taking all this into account, I don't think £300 is fair compensation. I'm currently minded to increase this to £600.*

I said that I had provisionally decided to tell Barclays to:

- *Consider Ms D's request for a permanent switch to interest only*
- *If the above request is declined, Barclays should allow Ms D an interest only concession from October 2020 when she took the new fixed rate until 31 January 2028 when the fixed rate ends*
- *Amend its internal records and anything it's reported to external credit reference agencies as if Ms D's mortgage had been on interest only as per the above*
- *Review Ms D's credit card limit as if her mortgage hadn't been in arrears and amend the credit limit accordingly*
- *Pay Ms D £600 compensation for the distress and inconvenience this matter has caused*

I invited both parties to respond by 1 November 2022.

Ms D responded. She said she was willing to cooperate with the decision but felt that Barclays considering her request for a permanent switch again wasn't practical. She also asked for confirmation of how much compensation I was suggesting which she still felt was too low.

Barclays didn't respond to my provisional decision.

### **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.

I understand that Ms D feels there isn't much point in her applying for a permanent switch to interest only again given she feels it will likely be declined. But I remain of the opinion that it's right that Barclays assess this first. However, even if this isn't successful, what I've suggested will still give Ms D a substantial amount of time on an interest only basis to make plans for the future.

I accept that my provisional decision may not have been wholly clear on compensation amounts. I am suggesting another £300 on top of the £300 Barclays has already offered, so a total of £600. I realise Ms D doesn't think this is a fair amount. I've thought again about this. But for reasons set out in my provisional decision, I remain of the opinion that this amount is fair and reasonable in these circumstances.

I've reconsidered everything again. In light of no response from Barclays, and what Ms D has had to say, I see no reason to depart from the findings I made in my provisional decision. So I'm going to uphold this complaint.

### **Putting things right**

For the reasons set out above and in my provisional decision, I uphold this complaint and direct Barclays Bank UK PLC to:

- Reconsider Ms D's request for a permanent switch to interest only
- If the above request is declined, Barclays should allow Ms D an interest only concession from October 2020 when she took the new fixed rate until 31 January 2028 when the fixed rate ends
- Rework Ms D's mortgage account as per the above point. In doing so, Barclays should amend its internal records and anything it's reported to external credit reference agencies as if Ms D's mortgage had been on interest only
- Review Ms D's credit card limit as if her mortgage hadn't been in arrears and amend the credit limit accordingly if necessary
- Pay Ms D £600 total compensation for the distress and inconvenience this matter has caused

### **My final decision**

I uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 30 November 2022.

Rob Deadman  
**Ombudsman**