

## The complaint

Mr A has a mortgage with Barclays Bank UK PLC ("Barclays"). He complains about the way it has been managed.

## What happened

In early 2018 Mr A took out a repayment mortgage with Barclays. The mortgage was for £360,000 plus fees over a 22-year term.

Mr A missed two mortgage payments in January and February 2020. Barclays then agreed to give him two coronavirus mortgage payment deferrals between June and August 2020, and September to November 2020. Later he agreed with Barclays that he'd only make interest payments on the account between the end of February 2021 and July 2021. While the payments missed during the payment deferrals are not to be treated as arrears, the amounts underpaid during the interest only payment concession are.

Mr A says that the financial difficulties he experienced in 2020 and 2021 were temporary – they stemmed from losing his job around the time of the covid-19 pandemic and his marriage breaking down.

Towards the end of 2021 Mr A looked at options to get the best interest rate on his mortgage when his fixed interest rate product ended in February 2022. In October 2021, Barclays mistakenly told him that he could get a new interest rate product despite the arrears on his account. But in November 2021 Barclays said Mr A needed to clear the arrears before he did that. Barclays offered Mr A £150 for its mistake.

Mr A is unhappy that as a result of the arrears he was unable to get another fixed interest rate product. He told us that instead he was offered a variable rate mortgage that meant he had significantly larger mortgage payments – something he couldn't afford.

Mr A also thought it was unfair that his mortgage was recorded on his credit file as being in arrears instead of a payment arrangement.

Our investigator looked into what happened. She said that Mr A's financial situation had improved in late 2021. She could see that Mr A had been making full monthly payments since September 2021. So she said Barclays should help Mr A repay the arrears that had built up on his account by capitalising the arrears. She also thought that Barclays should have discussed capitalising the arrears with Mr A when he'd approached them about that in December 2021. She thought that if that had happened Mr A would've been eligible to renew the interest rate product on his mortgage in early 2022 when his fixed rate product ended. So she said Barclays should backdate a fixed interest rate product for Mr A to apply from when his fixed rate product ended in early 2022.

Mr A also complained that Barclays recorded adverse information on this credit file in relation to the missed payments. Our investigator didn't think Barclays had made a mistake about that as she thought the information it recorded on his credit file was a true and accurate description of the operation of his account. But she thought that the £150

compensation Barclays had offered wasn't enough. She thought it should increase the compensation to £300.

Recently Barclays agreed to increase the compensation to £300 but it didn't agree with our investigator about capitalising the arrears on the mortgage, so this complaint has been passed on to me to decide. Barclays said that Mr A refused to discuss his income and expenditure ("I&E") with it in December 2021. So it wasn't able to consider the right options for Mr A. It also said that capitalising arrears wasn't an option available to the adviser handling the December 2021 phone call as it was a last resort that was only available in exceptional circumstances to customers after it had been considered by an internal stakeholder panel. So it didn't think it did anything wrong at that time.

### **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.

Having done so, I've reached broadly the same conclusion as our investigator. I'll explain why.

The issue at the heart of this complaint now is whether Barclays should have capitalised the arrears on Mr A's mortgage in December 2021 as he wanted. Barclays said that capitalisation was only available in exceptional circumstances and as Mr A didn't complete an I&E assessment, it wasn't in a position to say that this was the right outcome for him. It said it had a responsibility to ensure that Mr A could afford his mortgage – especially as capitalisation would increase the monthly payments - and was conscious that he'd moved out of the mortgaged property by December 2021 as his marriage had broken down. So Mr A was paying the mortgage and for accommodation for himself at another address. In the circumstances it needed to consider Mr A's outgoings. It also told us that it would expect arrears to be repaid in the shortest time possible as capitalising Mr A's arrears would mean that they were cleared over a longer period of time and would come at a higher cost to him.

I appreciate the points Barclays has made, and don't dispute them in principle. But I think Barclays could have handled the phone calls it had with Mr A in December 2021 much better. I've considered the notes of its contact with Mr A at this time. They're clear that Mr A was very upset and stressed by his situation and felt that capitalisation (something he was adamant Barclays did have available) was the only solution for him. Mr A was categorically told that Barclays wouldn't do that. That was the context in which he didn't go through his I&E with Barclays – Mr A told Barclays he was working and had no time to complete the I&E.

I think that Mr A should have completed the I&E assessment around that time. In order for Barclays to help him it needed Mr A to engage meaningfully with it about his circumstances, and supply any reasonable evidence that Barclays needed to understand his I&E.

However, I think that Mr A would have done that if Barclays had told him that capitalisation was an option in December 2021. Capitalisation was an option available to Barclays under the rules of mortgage regulation and the regulator's guidance and Mr A - a professional in the financial services industry - knew that. That doesn't mean that Barclays had to capitalise Mr A's arrears on request. But it should have considered whether doing so was the most appropriate way of assisting him rather than simply saying it couldn't be done. So I can understand why he was frustrated when he was told it wasn't possible on that phone call – so frustrated that Mr A said he didn't have the time to complete the I&E assessment.

Barclays has suggested that Mr A wouldn't have been able to afford to capitalise the mortgage, but it hasn't provided us with any evidence to support that. While capitalisation

would have increased the monthly payments, I've also borne in mind that the arrears were relatively small and there was still around 18 years left on the term. So I don't think the impact would have been very substantial. And I also think it's relevant that capitalisation would have made Mr A eligible for a new interest rate - but retaining the arrears on the account would not. As a result, it's very likely that Mr A's mortgage would soon have become more expensive if Barclays didn't agree to capitalise the arrears. I've not seen any evidence that Barclays considered any of these points at the time.

I think it's likely that had Mr A completed an I&E assessment in December 2021 Barclays would have found (even if it had needed to take the matter to a stakeholder panel) that he could afford to capitalise his mortgage. I say that because he maintained his contractual monthly payments ("CMPs") from August until December 2021. He was even able to meet the CMP in February & March 2022 when his CMP had increased substantially – by approximately £400.

For completeness I think it's worth saying here that Barclays has said capitalisation is a last resort option. I don't agree about that. It's one of the options the regulator says is available to assist a borrower with a payment shortfall. As with all the options, there are advantages and disadvantages and it's not right for every borrower or every situation. But it's something that Barclays should have given consideration to. In any case, I don't think the other options it has recently suggested would have been more suitable for Mr A in December 2021. For instance, I don't think extending the term of the mortgage would have been suitable for Mr A given his age and the length of the existing term. I'm also conscious that Mr A had made use of temporary forbearance measures available to him by December 2021, and that he was looking for a long-term solution to help him clear the arrears and be eligible for a new fixed term interest rate product.

Barclays also says that the adviser Barclays spoke to wasn't able to authorise capitalisation – only its "stakeholder panel" could do that. But I don't think that's relevant to my view of what's fair and reasonable. I've explained why capitalisation was an option Barclays should have taken into account and why I think it would have been the fair way to support Mr A in these particular circumstances. Barclays might have chosen to organise its business in such a way as to restrict its ability to offer the full range of forbearance options set out in the regulations. It's a matter for Barclays how it chooses to organise its business. That might explain why Barclays acted in the way it did – but it doesn't make it fair and reasonable in the particular circumstances of this case.

I also think Barclays needed to consider the financial situation Mr A would be in after his fixed rate product ended in January 2022. As he wasn't able to get a new fixed rate interest product Mr A went on to Barclays' standard variable rate. Barclays' notes of its contact with Mr A show that as early as February 2022 he told it that he didn't think he would be able to afford his monthly payments on that rate after his fixed rate product expired in January 2022. But I can't see that it did anything other than give Mr A some temporary breathing space as a result of that. I think that was another opportunity for Barclays to support Mr A in what it knew was a very difficult time for him. Instead Barclays went on to take legal action against Mr A in relation to the mortgage – something that was definitely a last resort option for Barclays.

Mr A has told us that the interest rate on his mortgage was fixed at 1.57% before the end of January 2022. As things stand today that interest rate is more than 7.4%. Recently Mr A has told us that given the amount of time it has taken to resolve this complaint (including several periods in which we have had to chase Barclays for its response) and the fact that his mortgage payments have increased significantly over that period, he has taken steps to sell the mortgaged property. He says he feels he has been left with no choice but to do this. He complains about the profound impact of that on him and his family - he has talked about his

wife and children being evicted from their home. In previous conversations Mr A told our investigator that he was committed to his family staying in the mortgaged property – for their benefit and so that he could continue to live near them.

### *conclusion*

Bearing in mind everything that's been said and provided on this case, I think Barclays should have done more to support Mr A. In particular, I think it should have discussed capitalising the arrears with him when he spoke to Barclays about that in December 2021. I think that if that had happened Mr A would've been able to capitalise his arrears and go on to renew the interest rate product on his mortgage in early 2022 when his fixed rate product ended.

So I think Barclays should rework Mr A's mortgage as if a five-year fixed interest rate (the lowest interest rate that he would've been able to get at that time) had applied from February 2022, taking into account any fees he would've incurred getting that product. Mr A had talked about getting a five-year fixed interest rate product when he approached Barclays about that. Barclays should apply 8% simple interest to each overpayment Mr A has made towards his mortgage between February 2022 until the date of settlement as a result of the rework.

I'm conscious that a five-year fixed rate product is likely to have included an early repayment charge ("ERC") that would've been payable if the mortgage is redeemed within the five-year period. Mr A has taken steps to sell the mortgaged property, so it's very likely that the ERC will be payable when he redeems the mortgage. As I'm satisfied that Mr A is only selling the mortgaged property because of Barclays' actions and the impact of those actions on him, I think that if an ERC is payable when the mortgage is redeemed, Barclays should waive that ERC.

I've also considered whether it would be fair and reasonable for me to award Mr A more compensation for what happened. I think it would. As said above, I'm satisfied (for the reasons set out above) that Barclays mistakes in this complaint have had a significant impact on Mr A. Barclays was made aware of Mr A's difficulties repaying his mortgage in a rising interest rate environment on a number of occasions, but (for the reasons set out above) it didn't do enough to support him. In particular, it didn't consider capitalising the arrears on his mortgage as it should. I'm also conscious that Barclays' delays responding to this complaint have added to the pressure Mr A has been under for some time. So I think Barclays should pay Mr A £800 compensation to reflect the impact of its actions on him.

### **Putting things right**

I think that Barclays should put things right by carrying out the actions I've set out below.

### **My final decision**

For the reasons set out above, my final decision is that Barclays Bank UK PLC should:

- pay Mr A £800 compensation; and
- rework Mr A's mortgage as if the arrears had been capitalised from 1 January 2022, and a five-year fixed rate (the lowest interest rate available in relation to the relevant loan to value) had been applied to the mortgage in February 2022.

Barclays should then re-calculate the mortgage using the payments Mr A actually made and the contractual monthly payment as it would have been based on that interest rate. If Mr A

has missed any payments, in full or in part, between February 2022 and now the overpayments should be used to clear any resulting arrears and Mr A's credit file should be revised accordingly. Barclays should then give Mr A the choice of either using the overpayments to reduce the mortgage month by month, or having the overpayments refunded to him. If Mr A chooses the refund option, Barclays should add simple annual interest of 8% running from the date of each monthly payment to date of refund. And in either case, Barclays can offset any product fee associated with the interest rate from the refund.

Barclays should then write to Mr A setting out his revised balance and monthly payment, based on the backdated interest rate for the rest of the five-year fixed rate period.

If Barclays deducts income tax from the 8% interest element of my award (if applicable) it should provide him with a tax deduction certificate, so he can reclaim the tax from the tax authorities if appropriate.

If Mr A redeems his mortgage within the five-year fixed rate period Barclays should not apply any early repayment charge that would otherwise have been applicable with that product.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 11 April 2023.

Laura Forster  
**Ombudsman**