

## **The complaint**

Mr P and Mrs T complain that Barclays Bank UK PLC caused problems in switching the interest rate on their buy to let mortgage.

## **What happened**

Mr P and Mrs T have a buy to let mortgage with Barclays. In July 2022 they applied online for a new fixed rate, signing and returning the acceptance form. The new rate was due to start on the expiry of their old one.

Mr P and Mrs T didn't receive any response from Barclays and the rate wasn't implemented. As a result, the monthly payments on their mortgage went up – and because there was a limit on their direct debit, the amount collected was no longer enough to pay the monthly payments. The mortgage fell into arrears which were recorded on their credit files.

Mr P and Mrs T complained. Barclays located the application and agreed it had failed to implement the new rate in error. It said it would apply the rate to their mortgage and offered £300 compensation.

However, the rate still wasn't implemented correctly and later in December Mr P and Mrs T received a letter telling them that their mortgage was in arrears. Barclays accepted it still hadn't resolved matters correctly. It implemented the interest rate, backdated to 3 August 2022, and said it would refund the additional payments Mr P and Mrs T had made at the higher interest rate they shouldn't have been charged. And it would remove the record of the arrears from their credit files.

Mr P and Mrs T weren't happy with that and brought their complaint to us. They didn't think £300 compensation was enough. They said they had found the arrears letters upsetting. And their credit files still hadn't been corrected. They said this error had prevented them applying for another re-mortgage. And the rate switch still hadn't been implemented, but they couldn't get any resolution from Barclays.

When the complaint came to us, Barclays explained that there had been delays in implementing the rate. But the arrears on Mr P and Mrs T's credit files were also related to the issue of the limited direct debit no longer being enough to cover the monthly payments. It said it had now resolved both their issues and ensured the account was up to date.

Our investigator thought that was a fair resolution, but that Barclays should increase the compensation to £500 to reflect the upset caused to Mr P and Mrs T. Barclays accepted that, but Mr P and Mrs T didn't. They said it had taken months to clear their credit files, which had affected their ability to take out other finance. They said they would have to disclose a refused application in future, which would impact their ability to take out further mortgages. And they said the whole situation had caused them a great deal of upset and inconvenience and had a particular impact on Mrs T's health.

As no agreement could be reached, the case comes to me for a final decision on what's the fair way to put things right in this case.

## **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.

What happened with Mr P and Mrs T's mortgage is very unfortunate. Barclays accepts it made mistakes, so the primary thing for me to decide is what it now needs to do to put matters right.

There are in fact two separate issues here – though both combined to cause the problems Mr P and Mrs T experienced.

This is a buy to let mortgage on interest only terms, which means that Mr P and Mrs T are only required to repay the interest each month. There's no payment towards the capital, and the overall balance doesn't reduce over time.

However, in around 2020, Mr P and Mrs T decided to make regular overpayments to reduce the capital as well as pay the interest. There are two ways of doing that – either they can manually make payments themselves, or they can agree with their lender to collect an additional amount each month.

They chose the latter, and so Barclays changed their direct debit from a variable one which would collect the contractual monthly payment each month (changing when the payment changed) to a fixed direct debit collecting the then monthly payment plus the amount Mr P and Mrs T wanted to overpay.

This meant that when their interest rate changed in 2022, the direct debit – even allowing for the overpayments – was no longer enough to cover the monthly payments.

That would still have been the case even if the interest rate change had been implemented properly; the fixed direct debit still wouldn't have been enough. And so Mr P and Mrs T would need to agree a replacement direct debit with Barclays separate to taking their new rate.

The second issue was the failure to implement the new rate. That seems to have been because the acceptance form Mr P and Mrs T sent back wasn't processed and so the required changes weren't made to their account. The reason for that isn't clear. It might have been lost in the post and never received by Barclays; it might have been received but lost internally; or it might not have been processed properly. I don't need to decide that, because Barclays accepts it should have made sure the application was processed in time and that the rate was implemented when it should have been.

The failure to implement the new interest rate compounded the direct debit problem – since in the absence of the new rate, Mr P and Mrs T's mortgage reverted to a higher interest rate with higher monthly payments, and therefore the shortfall on the direct debit was even more than it would have been with the rate in place.

Initially, when Barclays agreed to backdate the rate to August and rework the mortgage, that didn't resolve all the problems. Even with the new rate in place, Mr P and Mrs T still hadn't paid enough to cover what they should have paid from August onwards.

However, following our involvement, Barclays recognised the direct debit issue too. It agreed that it ought to have contacted Mr P and Mrs T sooner to amend the direct debit to allow it to collect the full new monthly payment.

## **Putting things right**

Barclays therefore agreed to write off the additional amount Mr P and Mrs T hadn't paid, ensuring that their account was up to date. I think that was fair. The Financial Ombudsman Service has a longstanding approach to situations like this – which we call underfunding, and which is set out on our website. In short, where a mortgage is underpaid because of a lender's mistake and but for the mistake the customers would have paid the correct amount, it wouldn't be fair to expect the customers to make up the shortfall that results.

Barclays has now done this. This meant that Mr P and Mrs T's mortgage balance was reduced to what it would have been had these errors not occurred. Barclays has written off around £570 that Mr P and Mrs T would have had to pay had their direct debit been amended sooner.

I think it's fair to take that amount into account in thinking about the amount of compensation Barclays should pay Mr P and Mrs T for the distress and inconvenience caused. I'm sorry to hear about Mrs T's health condition. I'm sure this was a very worrying and upsetting experience for both of them, and that was compounded by the impact on Mrs T's health of the additional stress – as well as the time and inconvenience they've spent in trying to put matters right.

I've thought about the sort of awards the Financial Ombudsman Service makes in cases like this. Examples of our awards can be found on our website. Taking into account the amount Barclays has written off that Mr P and Mrs T now won't have to pay, I'm satisfied its revised offer of £500 compensation is fair and reasonable in all the circumstances.

Barclays should also make amendments to Mr P and Mrs T's credit files. It finally resolved all the issues in April 2023, and it usually takes a few weeks for credit file reports to be updated. So it's disappointing to see that their credit files were still showing missed payments in July. If it hasn't removed the adverse entries yet, Barclays should ensure this happens now. To be clear, Barclays isn't responsible for the "credit score" a credit reference agency quotes; that's the agency's own calculation based on the entries on a credit record. What Barclays needs to do is ensure that the specific records of payments to this mortgage show that what should have happened – that Mr P and Mrs T made their payments in full and their mortgage was up to date throughout this period. Barclays has re-worked their account on this basis, and their credit files should say the same.

Mr P and Mrs T have also said that the impact of Barclays' mistakes led them to lose out on a remortgage application, including releasing some equity. I haven't seen evidence of that application. The only rejected application I've seen is this one, when it was belatedly received and considered in November, and rejected because of the missed payments. And that wasn't an application for a new mortgage, but for a rate switch.

However, if there was another refused application, and Mr P and Mrs T are obliged to declare it in future credit applications, they can explain the circumstances that led to the refusal – including, if necessary, showing the lender a copy of this decision – to show the wider circumstances in which it was considered.

## **My final decision**

For the reasons I've given, my final decision is that I uphold this complaint and direct Barclays Bank UK PLC to:

- Remove all adverse entries related to the direct debit and rate switch issues from Mr P and Mrs T's credit files; and

- Pay Mr P and Mrs T £500 compensation – to include the £300 previously offered.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P and Mrs T to accept or reject my decision before 26 October 2023.

Simon Pugh  
**Ombudsman**