DRN-4256459

The complaint

Mr P is unhappy that Barclays Bank UK PLC declined his application for additional borrowing due to cladding issues on his property. Mr P said that he provided Barclays with an EWS1 form in May 2022, but it took two months for them to decline the application which has meant an increase in interest rates on an unsecured loan he had to take out instead.

What happened

Mr P has a mortgage with Barclays, and he contacted them in April 2022 to ask about increasing his mortgage as he wanted to purchase the final share in order to own 100% of his property – also known as staircasing.

He said he explained to the adviser that his property was affected by cladding and that he had an EWS1 form which confirmed a rating of B2. Mr P said the adviser didn't think it would be an issue as Barclays already held security for the property. Mr P said the adviser made an appointment for 11 May 2022 to discuss the application and he sent Barclays the EWS1 form two days before the appointment.

Mr P said he made the application on 16 May 2022, and he contacted Barclays on 4 July 2022 as he hadn't heard anything, and he was told they still hadn't arranged for a valuation of the property. Mr P explained that he already had a valuation that was completed by the housing association, and this was due to expire on 2 August and didn't want to pay for another one. Barclays acknowledged the delays and offered Mr P £200 compensation.

A desktop valuation was then completed, and the value came back as zero due to the cladding issues and the fact the property was rated as B2. Barclays declined the additional borrowing after this was sent to their underwriters to review – they said it fell outside of their lending criteria.

Mr P said he was in a rush to complete before his own valuation had expired so he had to take out an unsecured loan of £25,000 and put this towards the amount needed to staircase with some inheritance that he had. But he said if Barclays told him sooner – in May 2022 when they had the EWS1 form that it was outside of their criteria, he would have been able to obtain a lower interest rate on the loan.

Mr P said the loan rate he could have obtained in May 2022 was 2.8% and he ended up applying in July 2022 – when Barclays declined the application – at a rate of 3.2%. He feels this is unfair. He said it is costing him more now each month then it would have done had Barclays of declined the application sooner. He thinks it was clear from the start that the property didn't meet their lending criteria as he sent them the EWS1 form straight away.

Barclays acknowledged there were delays and offered Mr P £200 for this but said the additional borrowing didn't meet their lending criteria and they had to refer it to their underwriters which was the right thing to do.

Mr P wasn't happy with what Barclays had offered so he brought his complaint to the Financial Ombudsman Service where it was looked at by one of our investigators. He thought that Barclays didn't do anything wrong in declining the application as it was clear that it didn't meet their lending criteria, but he thought they should have told Mr P earlier. So he said that Barclays should cover the difference in the interest rates that Mr P took out on the personal loan.

Barclays responded and asked for evidence of the interest rates which the investigator sent to them. Barclays were not happy with some of this evidence as they said they couldn't be sure that Mr P would have been able to take the loan out in May 2022. They also said that although they delayed the process, it had to be referred to their underwriters for a decision.

Barclays also said that Mr P had since applied for further borrowing in February 2023 for £30,000 which was initially declined but then overturned. They said that Mr P used this money to repay the personal loan.

Our investigator challenged Barclays on this as Mr P told him he didn't use the money to repay the personal loan and took it out for home improvements. Barclays then apologised and confirmed that Mr P didn't use this money to repay the loan. Our investigator asked Barclays what had changed since May 2022 to February 2023 which meant that the additional borrowing was now approved, and Barclays said that by February 2023, Mr P already owned all of his share for the property and they had received a letter from the housing association confirming that remedial costs were not going to be passed on to the leaseholders. Barclays said this was referred to their underwriters and the application got approved. But Barclays didn't comment again on the difference in interest rates which is what Mr P would like in order to resolve this complaint.

As Barclays have not commented further on the difference in the interest rates, even though they asked for the evidence, the complaint has now been passed to me to decide.

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.

The EWS1 form was introduced in collaboration between government, the mortgage industry and the surveying industry following the Grenfell Tower tragedy. The fire at Grenfell Tower led to concerns across the country about the possibility of combustible cladding and other fire safety issues – including balconies built on top of each other – which might allow fire to spread quickly through affected buildings.

The EWS1 process allows a qualified fire safety inspector to assess a building's external wall system. The building will then be given a rating – showing that there are no fire safety risks, that there are issues but the risk is low, or that there are issues which are high enough risk to require remedial work. Obtaining an EWS1 form is the responsibility of the building owner/management company, not individual leaseholders, since the form covers the whole building.

The EWS1 process was designed, among other things, to give mortgage lenders enough information to decide whether a building presented a particular fire safety risk. Lenders will only lend where the property which is subject to the mortgage is good security for the loan – and if there's a fire safety risk, it might not be good security. That's because of the higher risk of damage to the property, and also a greater likelihood that it won't be able to be sold.

Mr P's property is rated a B2 – which means there is substantial risk requiring remediation.

Having considered everything carefully, I think that Barclays could have told Mr P sooner that the application for additional borrowing wouldn't be approved and there were delays in arranging the desktop valuation which could have been avoided. I appreciate the application was sent to Barclays underwriters but having looked at their policy, it doesn't look as though this would have been approved. Under their policy at the time, Barclays could only apply discretion to allow additional lending in impacted buildings where the funds were required to fund remediation works to the cladding. The policy specifically says:

'Barclays will allow lending or additional lending to ***existing mortgage customers only*** *in order to fund remediation works (within existing policy and where lending is assessed as*

affordable). Such an application must be accompanied by the following documentary evidence:

i. Original EWS1 form;

ii. Headed notepaper document from freeholder/developer/Housing Association outlining remedial costs;

iii. A schedule of works detailing actions to be taken, timescales and that the building will be compliant with fire safety regulations post the works.

Mr P didn't want the additional borrowing for remediation works, he wanted the money to purchase his final share in the property, so I do agree that Barclays were in their right to decline the additional borrowing. However, Mr P had already sent them the EWS1 form in May 2022 which showed the property rating as B2 – which confirms that there were fire safety issues. And Mr P said he told the adviser that the building had cladding but the adviser didn't think it would be an issue because Mr P already had his mortgage with them. So I think based on Barclays policy at the time and the reason that Mr P wanted the additional funds for – I can't say that this was ever going to be approved. I also note from Barclays contact notes that it was mentioned that the issue with the property wasn't picked up in May 2022 which adds to this argument.

Because Mr P already had a valuation from the housing association which expired on 2 August 2022, he was in a rush to complete this. So he used some of the money he had from inheritance and borrowed a further £25,000 on an unsecured loan which is the most he was able to obtain. He took out the loan in July 2022 which had an interest rate of 3.2% but had he of been told sooner – in May 2022 – that his additional borrowing wouldn't have been approved, Mr P would have been able to obtain an unsecured interest rate at 2.8%.

I have seen evidence that confirms both of these rates and I don't agree with Barclays that Mr P may not have been able to secure a personal loan in May 2022. He managed to get the loan approved in July 2022 – at a higher rate – and I haven't seen anything that suggests any of his personal circumstances had changed. So, even though there are no guarantees that applications would be approved, on balance, I believe Mr P would have been able to take this loan out in May 2022. So I think he has been disadvantaged and is at a financial loss because of this.

Barclays and Mr P have told us that Mr P applied for additional borrowing again in February 2023 which was initially declined but then overturned. Barclays said that it was approved in February 2023 as Mr P already owned the entire property by this point and they had a letter from the housing association that confirmed the costs would not be passed to the leaseholders – so they were comfortable with the risk. I think Mr P owning the entire property and confirmation of the costs would have allowed Barclays to consider the application differently to what they had done in May 2022 - but they still need to put things right for Mr P.

Mr P never used the additional £30,000 to pay off the personal loan (as initially thought by Barclays) and the application form confirms this as it clearly states the money was to be used for home improvements. So even though Mr P has since been able to obtain further borrowing for home improvements from Barclays, he still has his personal loan outstanding and I have seen evidence of this. So Barclays should pay the difference in the interest rate of 2.8% against the rate of 3.2% and calculate this over a term of five years which is how long he took the personal loan out for.

Our investigator has already submitted all the necessary evidence to Barclays to enable them to do this so there isn't anything further they should need in order to calculate this.

I also think that the £200 that Barclays offered Mr P for the initial delays with the application is fair and reasonable in the circumstances of this complaint.

My final decision

For the reasons given above, I uphold this complaint and direct Barclays Bank UK PLC to:

- Calculate the difference in the rate of 2.8% against the rate of 3.2% for five years, which is how long Mr P took out the personal loan for. Barclays will need to pay the difference to Mr P
- Pay Mr P £200 for the distress and inconvenience caused if not already done so

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 13 September 2023.

Maria Drury
Ombudsman