

The complaint

Mr and Mrs B complain that Barclays Bank UK PLC mis-sold them a mortgage that was unaffordable for them.

What happened

In February 2014 Mr and Mrs B applied for a mortgage through Barclays. They were advised to borrow £186,950 on capital repayment terms over 23 years. Barclays advised an initial five-year fixed interest rate of 3.55%. The contractual monthly payments were around £992. On 14 April 2014, Mr and Mrs B were issued with a mortgage offer setting out the terms of the mortgage.

Following the global financial crisis, the Financial Conduct Authority ("FCA") carried out a comprehensive investigation of the mortgage market – referred to as the Mortgage Market Review (MMR). There are regulations that have flowed from MMR. This has led to a series of major changes in the way residential mortgages are regulated, effective since 26 April 2014. MMR regulations have brought about requirements for stricter lending assessments – in particular around affordability, and around repayment strategies for interest only mortgages – aimed to protect consumers and encourage mortgage lenders to act more responsibly.

As a result of MMR requirements, it was necessary for lenders, including Barclays to make changes to its affordability calculations – as effect from 26 April 2014.

Following an internal review some years later, Barclays found that it incorrectly assessed some mortgage applications in 2014 – around the time it made changes to its affordability calculator. In some cases Barclays didn't carry out the required affordability assessment under the new MMR standards in full. Barclays initially thought that Mr and Mrs B's mortgage fell into this category.

Barclays said following its review, it didn't think the error had impacted Mr and Mrs B's ability to repay their mortgage nor has it caused any financial loss. So their mortgage had not been affected as a result of this. But to recognise the mistake and the time taken to notify Mr and Mrs B of the error, Barclays offered them £750 compensation each.

Mr and Mrs B were unhappy about the letter they received so they complained to Barclays. They said that contrary to what Barclays say, they have experienced a financial loss because of its actions. Mr and Mrs B say that because Barclays lent them too much money their mortgage is unaffordable for them. Over the years they've had to borrow from elsewhere to be able to make their monthly mortgage payments. They didn't think a joint combined award of £1,500 fairly compensated them in the circumstances.

Barclays didn't uphold the complaint. It said it hadn't seen enough to suggest that the mortgage was unaffordable for Mr and Mrs B at the time that it was sold. In any event it said that, although the monthly mortgage payments have varied over time, to date they remained below the initial amount Mr and Mrs B budgeted for when they took out the mortgage. Barclays say there has been no loss because the approved mortgage allowed them to

purchase a property that has significantly increased in value. Having considered everything it didn't agree that it was necessary to increase its compensation award.

Mr and Mrs B remained unhappy and brought their complaint to our service.

Barclays later said that following a further review of Mr and Mrs B's mortgage account – it has found that their mortgage isn't impacted in the way it thought.

Barclays said Mr and Mrs B received their mortgage offer on 14 April 2014. This was before the changes to affordability calculations which were put in place on 26 April 2014. So Barclays says that its pre-MMR affordability calculator was correctly used to assess the affordability of Mr and Mrs B's mortgage. So no error was in fact made with their affordability assessment.

An amendment was later made to Mr and Mrs B's original offer, by changing the property. This caused a new offer to be issued in June 2014. However the underwriter agreed the amendment without the need for a further application – because the change being made wasn't material to affordability. All that was changing was the property, not the amount borrowed or Mr and Mrs B's financial circumstances.

So, Barclays said Mr and Mrs B should not have been included in the remediation project as no error has occurred, but it was still willing to honour its offer of £1,500.

An investigator looked into things. She said that having considered everything she's not seen enough to suggest that Barclays had lent irresponsibly or that the mortgage had been mis-sold. The investigator explained why she thought Barclays' offer fairly compensated Mr and Mrs B for any distress and inconvenience caused and why she wasn't recommending Barclays to do any more in the circumstances.

Mr and Mrs B didn't agree and asked for the case to be decided by an ombudsman.

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 can understand Mr and Mrs B's concerns when they unexpectedly received a letter from Barclays in November 2022 that implied a mistake had been made in the way their mortgage was sold to them some years ago. Barclays has since said that the letter was sent in error, and it has explained why Mr and Mrs B should not have been included in the review that was carried out.

This issue has understandably led Mr and Mrs B to question the overall affordability of their mortgage from its inception in 2014. Mr and Mrs B now also question a breach of the MMR rules. They say that because their mortgage completed after the new rules came into force, Barclays should've reassessed their application using the new rules, and by not doing so it has breached the MMR rules. I've given careful consideration to this when reaching my decision.

Did Barclays mis-sell Mr and Mrs B's mortgage?

Mr and Mrs B applied for a mortgage with Barclays in February 2014. An offer was issued on 14 April 2014. So Mr and Mrs B's application was submitted and approved before the MMR regulations came into force on 26 April 2014.

Barclays changed the way it assessed Income Tax and National Insurance contribution from self-employed income, which came into effect on 26 April 2014. But by that point Mr and Mrs B's mortgage application had already been considered and an offer made, so I'm satisfied Barclays assessed their application correctly using its existing criteria at that time, and I find no error was made with its affordability assessment on that basis.

After Barclays issued its mortgage offer, Mr and Mrs B chose to purchase a different property. Mr and Mrs B received a new mortgage offer to reflect the new property details. Mr and Mrs B say that because they changed their property purchase, Barclays should have fully reassessed their application – using the new MMR affordability assessment. Because it didn't do so, it has breached the rules.

I've thought carefully about this. I can see that Barclays did consider the possible impact of the newly enforceable MMR affordability rules on Mr and Mrs B's application. It was necessary for Barclays to refer the amended application to the relevant team for special approval. After considering the circumstances, Barclays agreed to approve the change of property without it impacting Mr and Mrs B's existing application and the offer they'd already received for the same lending amount. I don't think that was unreasonable in the circumstances, I'll explain why.

A mortgage offer confirms that the mortgage application has been accepted and the lender agrees to lend a sum of money. It's rare for a lender to withdraw a mortgage offer. It can happen in certain circumstances, usually where new information comes to light which is material to affordability and/or it uncovers dishonesty during the application or any criminal implications.

The only thing that changed during Mr and Mrs B's application process was the property being purchased. The new property was for a lower value and so the loan to value ratio increased slightly – but not to the extent that Barclays considered this to be an added risk which meant it wasn't prepared to lend in the circumstances.

The amount Mr and Mrs B wanted to borrow remained the same and they didn't declare a change to their financial circumstances. I'm satisfied Barclays would only need to be concerned that the new property was suitable security to continue with the application as intended. A new valuation was carried out to achieve this.

Barclays had already agreed to give Mr and Mrs B a mortgage before the new MMR rules were enforced. Considering all the above, I think it would have been unreasonable of Barclays to withdraw Mr and Mrs B's existing offer in the circumstances, solely because they chose to change their property purchase post offer.

That said, Barclays still had a duty to lend responsibly. Based on everything I've seen I'm satisfied that Barclays considered Mr and Mrs B's mortgage application in line with the relevant rules – those specifically set out in the Mortgage Conduct of Business regulations (MCOB).

I've carefully considered all the information available to me from the time of the application. And in doing so I've seen nothing to suggest Mr and Mrs B's application was incorrectly assessed by Barclays. Nor have I seen anything that would suggest the mortgage sold by Barclays was unaffordable for Mr and Mrs B or likely to be unsustainable. Barclays says that it carried out the necessary stress testing and income multiples were checked and completed in line with its internal policies at that time.

Mr and Mrs B borrowed £186,950 to buy a property valued at £238,000. Their mortgage was agreed on capital repayment terms over 23 years. Their interest rate was fixed for five years

at a rate of 3.55% until March 2019, with a monthly payment of around £992. The affordability assessment produced enough disposable income to comfortably cover the mortgage payments.

Barclays asked for payslips, an SA302 and bank statements to verify the information provided by Mr and Mrs B during their application, and it carried out a credit search to check for any adverse information that would be considered a risk.

Barclays assessed the application and carried out the necessary affordability checks in the way that I'd expect it to. Mr and Mrs B's application met Barclays' lending appetite and when considering everything, I've not seen anything to suggest Barclays lent irresponsibly in the circumstances.

I appreciate Mr and Mrs B have described experiencing financial difficulty over the years after taking their mortgage. I'm sorry to hear about their circumstances but I can't hold Barclays responsible for any change in circumstances that meant their commitments became unaffordable for them later, after the mortgage was sold. As I've explained there was nothing to suggest the mortgage was not affordable for Mr and Mrs B when Barclays sold it to them. So I don't conclude that Barclays mis-sold Mr and Mrs B their mortgage as suggested.

Putting things right

I appreciate this whole version of events has understandably caused Mr and Mrs B a degree of distress and inconvenience. Barclays admits it got things wrong in November 2022 when it incorrectly sent them the remediation letter. So what's left for me to decide is whether the things Barclays has done to put things right, including the amount of compensation awarded to date, is fair and reasonable in the circumstances.

Upon receiving the remediation letter from Barclays in 2022, Mr and Mrs B were led to believe Barclays made an error in how it assessed affordability when it sold their mortgage. This understandably caused them concern and worry and led them to question whether Barclays was responsible for any financial difficulty they may have experienced in the later years.

I think the impact described could have been avoided by Barclays and I'm pleased that in the circumstances Barclays has agreed to honour the compensation that's been offered. Having considered everything I think a compensation award of £1,500 combined for both Mr and Mrs B, is fair and reasonable in the circumstances and settles this complaint satisfactorily for a mistake of this nature. So I won't be directing Barclays to do anything more.

My final decision

My final decision is that I uphold this complaint to the extent that I direct Barclays Bank UK PLC to pay Mr and Mrs B £1,500 compensation as offered.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs B to accept or reject my decision before 4 January 2024.

Arazu Eid
Ombudsman