DRN-4704957

The complaint

Mr and Mrs H complain that Barclays Bank UK PLC unfairly declined to extend the term of their interest only mortgage.

What happened

The term of Mr and Mrs H's interest only mortgage expired in April 2022 with an unpaid balance. They asked Barclays to extend the term to mid-2024. They'd been told they would be able to apply for an equity release loan at that point.

Barclays declined, saying things can change and equity release might not be an option for Mr and Mrs H in mid-2024. It agreed it had failed to call Mr and Mrs H back when promised and offered £150.

I sent a provisional decision to the parties explaining why I intended to uphold this complaint. In summary, I said that Barclays ought to have considered whether it was in Mr and Mrs H's best interests to extend their mortgage based on the proposal they made in March 2022. I thought if it had done so, it would have agreed to extend the mortgage and it should now put Mr and Mrs H into the position they would have been in had it done so. I also said that Barclays should pay £500 for the upset caused.

Barclays agreed. Mr and Mrs H agreed with most of my provisional decision. However, they felt the compensation wasn't enough. Mr H set out in detail why he thought about £6,000 would better reflect what they've gone through.

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.

Where the evidence is incomplete, inconclusive or contradictory, I reach my decision on the balance of probabilities – in other words, what I consider is most likely to have happened in light of the available evidence and the wider circumstances.

The term of Mr and Mrs H's mortgage was due to expire at the end of April 2022. As they knew they wouldn't be able to repay the balance at that time, Mr and Mrs H contacted Barclays ahead of this to see what options might be available. Barclays said switching to a repayment mortgage wasn't affordable. Mr and Mrs H were told to contact Barclays nearer to the end of the term.

Mr and Mrs H wrote to Barclays in late 2021. They asked for a 10-year term extension to allow them time to plan for repayment via a lifetime mortgage or downsizing. Barclays says it files but doesn't respond to letters.

Mr and Mrs H contacted Barclays in March 2022. They said they intended to repay the mortgage by taking out equity release in July 2024 when Mrs H reached the minimum age. They provided information about their income and expenditure to establish that they could afford the monthly interest payments in the meantime. Mr and Mrs H wrote to Barclays confirming their proposal to repay the mortgage by taking out an equity release mortgage in July 2024. They included a valuation of their property and a copy of the letter they'd received confirming equity release was possible. Mr and Mrs H also said that their child was taking exams that summer and marketing the property would be disruptive.

Barclays told Mr and Mrs H that things can change and they might not be able to access equity release in mid-2024. It said there were no exceptional circumstances that would allow it to hold action after their child had sat their exams (summer 2022). It said options within its policy – such as the sale of the property – were available.

In February 2023 Mr and Mrs H wrote to Barclays with an update on their proposal. They said if they were unable to repay all of the mortgage with a lifetime mortgage (which they thought unlikely) they would use Mrs H's pension to cover the shortfall. They say Barclays assured them it would consider the proposal. Instead they received a letter from a solicitor appointed by Barclays about starting action for possession.

Mr and Mrs H wanted Barclays to vary their mortgage by extending the term. Rules on mortgage regulation require lenders to carry out an affordability assessment before they agree to offer or vary a mortgage. For an interest only mortgage the lender has to check there's a credible strategy to repay the balance. Rules on mortgage regulation (the transitional provisions in MCOB 11.7) say the lender doesn't need to carry out an affordability assessment in certain circumstances, if the proposed variation would be in the best interests of the customers.

I think that exception applies here. That doesn't mean Barclays had to offer a term extension, or that it couldn't assess affordability or the credibility of Mr and Mrs H's repayment proposal. It's unlikely to be in Mr and Mrs H's best interests to extend the mortgage term if the payments aren't affordable or they'd be in a worse position at the end of the extension.

Barclays said its policy didn't allow an extension for two years with equity release as the repayment plan. It said there were no exceptional circumstances to justify an extension outside of its policy. And a within policy option was available to Mr and Mrs H – to sell their property. I don't think that was fair. I think Barclays should have considered whether an extension to mid-2024 was in Mr and Mrs H best interests. In doing so, I'd expect Barclays fairly to take into account the following.

- Mr and Mrs H were able to maintain interest payments. So their debt wouldn't increase. If they made regular overpayments (as they suggested) this would put them in a better position when they came to refinance.

- Mr and Mrs H had a plan to repay the mortgage, which they couldn't action until mid-2024. They'd been told that this plan was credible and they provided a letter and property valuation to Barclays to support this.

- The extension Mr and Mrs H asked for was relatively short, which reduces the risk of an unexpected change in their circumstances (or the market for lifetime mortgages).

- Mr and Mrs H said in February 2023 that they could use a pension to cover any unexpected shortfall when they took out a lifetime mortgage. They didn't put this idea forward in March 2022. But if Barclays had fairly considered their proposal and their circumstances this might have emerged as an option at that time.

- If Mr and Mrs H are unable to re-finance with equity release they might still need to sell the property. There's nothing to suggest they'd find selling the property more difficult after a short extension.

- Mr and Mrs H's property was valued at about £475,000 and in May 2022 the mortgage balance was less than £150,000. The amount of equity in the property reduces the risk of any shortfall on sale.

Of course, there are risks with a term extension. Property values could fall. Interest rates could continue to rise. Mr and Mrs H's income could fall. This could affect Mr and Mrs H's ability to maintain payments and to re-finance. But these risks are reduced by the amount of equity and the relatively short extension Mr and Mrs H requested. The alternative was for them to sell their home immediately, with the inconvenience and costs involved.

Mr and Mrs H made their proposal to Barclays in March 2022. If it had dealt with their proposal promptly and fairly and considered whether it was in their best interests, I think it would have agreed to extend the mortgage for two years. I think Barclays should now put Mr and Mrs H into the position they would have been in had it done so.

I asked in my provisional decision for the parties' comments on the following.

- At this point, it might be more straightforward for Barclays to put a stay of action in place rather than a term extension. However, Barclays will need to allow Mr and Mrs H time to apply for and complete on an equity release/lifetime mortgage and, if need be, draw down a pension to cover any shortfall. I think it should allow three months for this from July 2024. So an extension or stay of action should be in place until the end of October 2024.

  Barclays agreed to a stay of action until the end of October 2024. Mr and Mrs H said their financial adviser has told them this would be enough time to re-mortgage.

- Mr and Mrs H might have been able to take out a two-year interest rate product if Barclays had agreed to extend the mortgage term in March/April 2022. Barclays should comment on this, and whether Mr and Mrs H would have been better off if they had.

  Barclays agreed. It said it could apply a two-year rate available from 12 May 2022, as this is when its panel first met to discuss Mr and Mrs H's request. Barclays said it wouldn't have applied a new product prior to Mr and Mrs H's mortgage maturing on 30 April 2022. I think that's fair.

  Having considered the parties comments, I think Barclays should provide information to Mr and Mrs H about the two-year interest rate product available on 12 May 2022 that would have been most beneficial in terms of reducing the cost of their mortgage (taking into account the interest rate, any product fee and the product expiry date). It should send calculations to Mr and Mrs H to show how applying this would affect their mortgage account. And, if Mr and Mrs H agree, it should apply the product to their mortgage account as if it had been applied from May 2022 to the product end date, and adjust the mortgage accordingly.

  It's possible that this product includes an early repayment charge (ERC) which might have applied if Mr and Mrs H made overpayments. If so, given that Barclays was asking Mr and Mrs H to repay the mortgage, I think it would be fair for Barclays to waive any ERC that might otherwise have applied.

  Mr and Mrs H asked if the additional interest would be refunded to their current account. I said in my provisional decision that Barclays should adjust the mortgage account. I still think that's the right approach, given that Mr and Mrs H do need to repay the mortgage balance within the next few months. And part of Mr and Mrs H's proposal to Barclays when they asked for an extension was that they intended to make overpayments to reduce the balance.

- If Barclays applied fees and costs related to recovery action to Mr and Mrs H's account, I think these should be removed. Such action wouldn't have been necessary if Barclays had considered their proposal fairly.

  Barclays agreed. Mr and Mrs H didn't think there were any fees or costs.

- I think Barclays should compensate Mr and Mrs H for costs incurred as a direct result of the unfair way Barclays dealt with their proposal. This wouldn't be all costs that Mr and Mrs H incurred. For instance, it's unlikely to be fair to require Barclays to compensate Mr and Mrs H for the costs of taking advice from an IFA, to explore what options might be available to them. But it might be fair to require Barclays to pay costs incurred if Mr and Mrs H needed further help due to the way Barclays dealt with their proposal. Mr and Mrs H would need to provide evidence of such costs.

  Barclays agreed if Mr and Mrs H provided evidence of the costs. Mr H said there weren't any costs they wished to claim for.

In my provisional decision I said Barclays should pay £350 in addition to the £150 it offered or paid (making £500 in total) for the inconvenience, upset and worry its errors had caused.

Barclays agreed to pay £500 for the distress and inconvenience caused.

Mr and Mrs H say Barclays didn't act in accordance with law and regulation and has systemic problems. They say it didn't deal with their request honestly, and it tried to force them to sell their home. Mr and Mrs H said for what they'd been through, compensation of £6,000 would be fair and explained their reasons in detail. I've thought carefully about what they said.

I must be clear that this service is not a regulator and we don't have the powers of a regulator. We can't fine or punish businesses or investigate whether they have systemic failures. We provide an informal dispute resolution service. What I can do is consider what Barclays should do to put matters right, including whether it should pay compensation to Mr and Mrs H. When doing so, I need to be fair to both parties. And bear in mind our service's approach to awarding compensation.

Some of the inconvenience, upset and worry Mr and Mrs H experienced over this period might have been avoided if Barclays had offered a term extension at the outset. That's why I think it's fair to require it to pay compensation. But I don't think it's fair and reasonable to require Barclays to pay the amount of compensation Mr and Mrs H have asked for.

As I said, I need to be fair to both parties. When Mr and Mrs H took out the mortgage they agreed to repay it. As a starting point, Barclays was entitled to expect them to do so when the term expired. And it is the nature of a mortgage that, ultimately, the lender can seek to recover its debt from the security property.

While Barclays needed to treat Mr and Mrs H fairly, including in how it considered their proposal to repay the balance, that doesn't mean it had immediately to agree to their proposal. There was no requirement for Barclays automatically to agree to Mr and Mrs H's request for a term extension, but the reasons I've given I think it should have considered whether this was in Mr and Mrs H's best interests. To do so, Barclays would have needed to ask Mr and Mrs H about their circumstances to assess what options it might offer, and whether their proposal to repay the balance was credible. I think it's reasonable for Barclays to suggest Mr and Mrs H explore their options with an IFA. It's inevitable this would be a stressful process and take up some of Mr and Mrs H's time.

The term of Mr and Mrs H's mortgage expired in 2022 and they were unable to repay the balance. This would have been worrying in itself. While a term extension would have given Mr and Mrs H breathing space they'd still need to repay the mortgage when this ended. As I said above, a term extension isn't risk free. Property values could fall. Interest rates could continue to rise (as indeed they have). Mr and Mrs H's income could fall. This could affect Mr and Mrs H's ability to maintain payments and to re-finance, or increase the cost of re-financing. During this period, even with a term extension in place, Mr and Mrs H would have been aware of the risk that their repayment plan might not succeed.

More recently, Mr and Mrs H said that having to make higher payments due to not having an interest rate product in place increased their stress and strained their finances, and they should receive compensation for this. I'd note that this isn't consistent with their proposal to Barclays which said that the monthly payments were affordable and that they intended to make overpayments.

However, I think Barclays made a number of errors which added to Mr and Mrs H's worry. It didn't fairly consider whether Mr and Mrs H's proposal was in their best interests. It sent them letters about a proposal that Mr and Mrs H hadn't made or agreed to. It said it hadn't received documents which had been sent to it. It sent letters to Mr and Mrs H about recovery action and instructed solicitors. On occasions it said it didn't have authority to speak to the IFA, despite Mr and Mrs H providing authority and asking that Barclays deal with the IFA. It didn't return calls as promised.

Taking all of this into account, I think £500 is fair and reasonable compensation for the additional worry, inconvenience and upset caused by Barclays errors.

Putting things right

Subject to further comments and evidence I receive, I think Barclays should take the following steps.

- Agree a stay of action on Mr and Mrs H's account to the end of October 2024.

- Remove any fees or charges applied in respect of arrears or recovery action, including any legal fees, from Mr and Mrs H's account. Provided Mr and Mrs H maintain monthly interest payments, it shouldn't apply further fees or costs related to arrears or recovery action until after the end of October 2024.

- Remove any adverse data reported to the credit reference agencies since the term of Mr and Mrs H's mortgage expired (Barclays said it hadn't reported any arrears). Provided Mr and Mrs H maintain monthly interest payments, it shouldn't report any adverse data until after the end of October 2024.

- Provide information to Mr and Mrs H about the two-year interest rate product available on 12 May 2022 that would have been most beneficial in terms of reducing the cost of their mortgage (taking into account the interest rate, any product fee and the product expiry date). It should send calculations to Mr and Mrs H to show how applying this would affect their mortgage account. And, if Mr and Mrs H agree, it should apply the product to their mortgage account as if it had been applied from May 2022 to the product end date, and adjust the mortgage accordingly. By that, I mean that it should apply any overpaid interest to reduce the balance. It should waive any ERC that might otherwise have applied to any overpayments made by Mr and Mrs H.

- Pay compensation of £500 (in total) for the distress and inconvenience caused.

My final decision

I uphold this complaint and order Barclays Bank UK PLC to make the payments and take the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H and Mrs H to accept or reject my decision before 9 May 2024.

Ruth Stevenson
Ombudsman