

The complaint

Mr and Mrs M complain that Barclays Bank UK PLC offered them a new interest rate on their mortgage at too high a loan to value (LTV) – not taking into account improvements they had made to the property.

What happened

Mr and Mrs M have a mortgage with Barclays. When their existing fixed rate was about to expire, they asked Barclays for a new rate.

Barclays said that the LTV was 76.5%, based on an index valuation. This meant that it offered them new interest rates from the above 75% band.

Mr and Mrs M didn't agree that was a fair valuation. They said that they'd carried out considerable work on the property since they'd bought it in 2022, and the works had increased its value. They said that meant the LTV must be below 75%, meaning Barclays had offered them interest rates which were too high. They asked Barclays to carry out a new valuation.

Barclays said it didn't carry out new physical valuations for rate switches, it based the LTV on index valuations. It would consider a revised valuation if Mr and Mrs M had carried out structural work, but they hadn't. So it wouldn't offer a rate from the below 75% band.

Our investigator didn't think Barclays had acted fairly in refusing a new valuation. He said Barclays should arrange a new physical valuation of the property, at Mr and Mrs M's expense. If that valuation showed that the LTV is below 75%, Barclays should offer Mr and Mrs M a rate from that range, backdated to when they first applied. And he said it should pay them £150 compensation. Barclays didn't accept that and asked for an ombudsman to review the complaint. It said it wasn't its policy to allow new physical valuations on rate switches, or to allow valuation appeals unless the borrower's valuation was at least 25% higher than the bank's, supported by evidence of sales of comparable properties.

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 agree with the investigator that this complaint should be upheld. It's not unreasonable for Barclays to rely on an index valuation when setting the LTV for a rate switch. Index valuations are based on the last sale price, plus local house price inflation in the meantime. In most cases, that's a reasonable way to estimate a property's current value without the expense and time of instructing a surveyor to carry out a physical valuation.

However, our approach is that while this is generally fair, where the borrower can show that there are reasonable grounds for believing an index valuation isn't likely to produce a fair estimate of current value, the lender should fairly allow a physical valuation to take place. Examples of where this might be appropriate include situations like this one, where

improvements to the property have been carried out since purchase – which an index valuation can't take into account. However, it's fair for any new physical valuation to be at the borrower's expense, since it is for their benefit. That's what, in my view, Barclays ought fairly to have allowed in this case.

Putting things right

To put things right, Barclays should allow a new physical inspection and valuation to take place now. It may use a surveyor from its panel, or if it prefers allow Mr and Mrs M to instruct a surveyor of their choice. But either way, Mr and Mrs M will need to meet the cost of the valuation.

If the valuation shows that the LTV is below 75%, and that as a result Mr and Mrs M are eligible for interest rates from the lower LTV band, Barclays should allow Mr and Mrs M to select a rate from the lower LTV band – using the rates available at the time they applied for a new rate. It should then apply that rate to their mortgage, backdated to the expiry of the old rate, and refund any additional interest payments Mr and Mrs M have made in the meantime. Barclays should add simple annual interest of 8% running from the date of each payment to date of refund to any refunded amounts (it may deduct income tax from the 8% interest, as required by HMRC, but should tell Mr and Mrs M what it has deducted so they can reclaim the tax if they are entitled to do so).

If the valuation shows that the LTV is still above 75%, Barclays will not be required to offer an interest rate from the below 75% band, and the rate it originally offered Mr and Mrs M will stand.

Barclays should also compensate Mr and Mrs M for the distress and inconvenience caused by its refusal to consider whether their property has now increased in value. I agree that £150 is fair compensation in all the circumstances. It should pay them that sum.

My final decision

My final decision is that I uphold this complaint and direct Barclays Bank UK PLC to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 6 October 2025.

Simon Pugh
Ombudsman