

complaint

Mr and Mrs B complain that Barclays Bank UK PLC hasn't agreed to extend the term of their interest only mortgage.

background

Mr and Mrs B took out a repayment mortgage in 2003. They switched to interest only payments in 2008. They say they were told by Barclays they'd be able to extend the term of the mortgage when it expired. But when the term expired in October 2018 Barclays didn't offer an extension.

Our investigator didn't recommend that the complaint be upheld. He said mortgage regulations have changed since Mr and Mrs B took out their mortgage. So while the information it gave them in 2008 might have been correct at that time, it has to follow current regulations when considering their request to extend the mortgage term.

The investigator said Mr and Mrs B have investment properties and are able to repay the mortgage. He said there was no certainty that Mr and Mrs B would be in a better position to repay the mortgage in 10 years than now. And their situation could get worse – for instance if the value of their properties fell. The investigator said Barclays hadn't treated Mr and Mrs B unfairly or failed to take their best interests into account.

Mr and Mrs B didn't agree. Mr B said the switch to interest only was on an advised basis. He says Barclays encouraged him to switch and said he didn't need a repayment vehicle. He said as an existing customer Barclays should honour what it had told him, even if regulations had changed.

Mr B said his circumstances could change for the better. He said he has business income and several investment properties. He says it's in his best interests to keep his properties and benefit from any increase in value. He said the interest only monthly payments were affordable.

my findings

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.

what happened?

Mr and Mrs B switched to interest only payments in 2008. They say Barclays didn't check they had a suitable repayment strategy. While Mr B says the switch was on an advised basis there are no documents from that time which support this.

Mr and Mrs B say when they switched they didn't expect to have to sell the property to repay the mortgage because Barclays had told them they'd be able to extend the term of the mortgage. Barclays accepts this, but says mortgage regulations have changed significantly since 2008.

When the term expired in late 2018 Mr and Mrs B asked Barclays for a 10 year extension with the intention of repaying the loan at the end by selling the property. Mr B met with Barclays' mortgage adviser in October 2018 and March 2019 to discuss a term extension. He was told he didn't meet Barclays lending criteria for an interest only mortgage.

Barclays considered whether to allow Mr and Mrs B to make additional payments to repay the capital. But based on what payments were affordable, this would have taken more than seven years, which wasn't acceptable to Barclays.

In his discussion with Barclays, Mr B said he'd cashed in an endowment policy, but this left a shortfall. And he's selling two investment properties. Barclays says it needs evidence of this, such as sales particulars, before it will hold action for possession.

Mr B says a repayment mortgage isn't affordable for them due to the short term: it's not clear if he's discussed taking out a repayment mortgage with Barclays, or another provider.

has Barclays acted fairly?

When Mr and Mrs B borrowed the money from Barclays they agreed to repay it at the end of the mortgage term, in October 2018. So when they asked for an extension, they were asking Barclays to change the terms of their agreement.

The regulator, the Financial Conduct Authority (FCA), sets out in its rules that it expects stringent assessments of both affordability and, for interest only mortgages, repayment strategy, before lenders agree to enter into or vary mortgages.

However, there are two exceptions to this requirement. Where an existing mortgage is to be varied and there's no change to its terms likely to be material to affordability, an affordability assessment isn't required. And, if that rule doesn't apply (for example, because there is a material change), there's still no need to carry out an affordability assessment provided the loan balance hasn't increased since 2014 and the proposed change is otherwise in the borrower's best interests. Similar provisions apply to the assessment of a repayment strategy for an interest only mortgage.

But these rules don't oblige lenders to make changes to mortgages. They merely say that changes don't have to be refused – if the criteria are met – on grounds of affordability or interest only repayment strategy. Changes can still fairly be refused on other grounds – though lenders are always subject to the requirement to act fairly, taking into account their customers' best interests. Separately, the regulator's guidance on interest only mortgages requires lenders to keep in touch with borrowers and discuss how the mortgage is to be repaid, exploring options to do so.

Mr B has explained why he wants to extend the mortgage term. He finds the monthly payments affordable and expects to benefit from his properties increasing in value. But while this arrangement might work for Mr and Mrs B, Barclays isn't obliged to agree to it.

In effect, Mr and Mrs B are asking Barclays to wait for the money it lent to be repaid because they prefer to use the money for something else – their investment properties. I appreciate that Mr and Mrs B need time to sell the investment properties. But they've known since October 2018 (if not before) that Barclays wouldn't extend the mortgage.

I don't agree that Barclays should have agreed to extend the mortgage term on the basis it was in Mr and Mrs B's best interests. There's no guarantee that their investments, in properties or otherwise, will increase in value. As Mr and Mrs B were able to repay the loan I think it was reasonable for Barclays to ask them to do so. I don't think Barclays treated Mr and Mrs B unfairly and I don't think it's reasonable to require it to extend the mortgage term.

Due to the Covid-19 pandemic and related Government restrictions, the regulator issued guidelines. Current guidelines say lenders can't take or resume possession action until November 2020. This gives Mr and Mrs B a few months' breathing space, to sell properties, re-finance or otherwise arrange for the repayment of the mortgage.

Mr and Mrs B should keep Barclays informed about what steps they're taking to repay the mortgage. I'd expect Barclays to treat Mr and Mrs B fairly while they do this, and to take account of any further guidance issued by the regulator. But, ultimately, if Mr and Mrs B aren't able to sell properties or otherwise repay the mortgage, Barclays is entitled to take possession as a last resort.

my final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs B to accept or reject my decision before 4 September 2020.

Ruth Stevenson
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