

## The complaint

Mr A's complaint is about his mortgage with Barclays Bank UK PLC. He is unhappy that following attaching a 10-year interest rate product to the mortgage in April 2021, Barclays changed the mortgage repayment basis from interest-only to repayment. Mr A has said that he believed the change to interest-only in May 2020 was permanent and had he known that it would change back after 12 months, he would have looked for an interest-only mortgage elsewhere and not taken the new product.

## What happened

Mr A arranged his mortgage with Barclays in 2011 on a repayment basis. In 2020, due to the covid-19 pandemic, Mr A's income reduced, and he asked Barclays for assistance. He asked to convert the mortgage to an interest-only basis. A 12-month temporary switch from repayment to interest-only was agreed. This was confirmed in a letter sent to Mr A on 20 May 2020, which set out that the arrangement would start in June 2020. Barclays also said that it would write to Mr A before the end of the temporary switch period to let him know what his monthly payments would be when it went back to a repayment basis. Barclays also told Mr B that, if at the end of the temporary switch period, he was concerned about the amount of the new monthly payments, he should contact it, so it could see how it could help.

In February 2021 Mr A applied online for a new interest rate product to be attached to his mortgage. A mortgage information sheet was produced at the time, which set out that it related to Mr A wanting to switch the interest rate on his existing mortgage. The document went on to confirm the '**main features of the loan**' as follows:

*'Amount and currency of the loan to be granted: £83,564.90*

*Duration of the loan: 10 years 4 months*

*This is an interest only loan of £83,564.90 on a fixed rate that will apply from completion until 31 May 2031.*

*...*

Barclays agreed to the rate switch and a 10-year fixed interest rate product was attached to the mortgage as of 1 April 2021. The mortgage offer set out on the first page:

*'This Offer is based on switching the rate of your existing mortgage.'*

The offer went on to confirm the same details about the main features of the mortgage as were contained in the mortgage information sheet, i.e. that it was an interest-only loan.

In May 2021 Barclays wrote to Mr A to confirm how much his mortgage payments would be going forward due to the mortgage changing from interest-only to repayment. Mr A contacted Barclays to question the change. Barclays explained to Mr A that the reversion from interest-only to repayment had been done automatically in line with the temporary switch arrangement made in May 2020. It said that if the product offer had detailed interest-only, it

was because that was the repayment basis at that time, but it didn't mean that the previous temporary agreement wasn't still in place. It explained to Mr A that if he wanted to change the mortgage to an interest-only basis permanently, he would need to apply to do so.

Mr A paid the repayment contractual monthly payment (CMP) until November 2021, but then cancelled the direct debit mandate. Payments were made thereafter of approximately the amount of the interest charged on the account, but as this was considerably less than the CMP, arrears built on the mortgage.

In January 2022 Mr A complained about the change from interest-only to repayment. He also raised concerns about not being kept informed about arrears on his mortgage current account. The latter issue doesn't form part of this complaint. Mr A also informed Barclays that he couldn't afford to pay the mortgage on a repayment basis at that time.

Barclays responded to the complaint in a final response letter of 31 January 2022. In relation to the change to a repayment basis, it accepted that the rate change offer had confused Mr A and led him to believe that the mortgage would be on an interest-only basis going forward. To compensate him for the distress and inconvenience he'd suffered due to this, Barclays offered Mr A £100.

Mr A wasn't satisfied with the response. Barclays responded further in its letter of 4 March 2022. It reminded Mr A that the interest-only concession on his mortgage had only been in place for 12 months from May 2020. He had been told at the time that the mortgage would automatically revert to repayment and so Barclays didn't think it had done anything wrong in doing so. However, it accepted that it hadn't provided Mr A with the level of customer service it should have, particularly in relation to how long it had taken to respond to his complaint, and so it paid him £25 compensation.

Mr A wasn't satisfied with Barclays' responses and referred his complaint to this service.

One of our investigators considered the complaint, and upheld it in part. She said that she considered the documentation Mr A had been issued with in relation to the new interest rate product being attached to his mortgage had been misleading. As such she recommended that Barclays increase its compensation payment to £200, organise a way for Mr A to clear any arrears on the mortgage and linked MCA, and, should he obtain an interest-only mortgage elsewhere within the following six months, the early repayment charge on the mortgage should be waived.

In response to the investigator's opinion, Mr A highlighted that the revised payment notification sent to him in May had said that he had requested that the mortgage change from interest-only to repayment. That was not the case. He said the contract had not reverted to repayment, because it was an interest-only contract. The investigator responded by confirming that the mistake in the documentation for the rate change didn't mean that the underlying mortgage contract had changed. Mr A didn't accept that and maintained that when he applied for the new interest rate product, the mortgage had been permanently changed to an interest-only basis. He asked that the complaint be referred to an ombudsman.

Barclays said that it accepted the documentation from the time of the switch may have confused Mr A. However, it pointed out that he hadn't contacted it for clarity, if there had been any confusion. It also pointed out that it didn't think that Mr A would be able to re-mortgage elsewhere due to the current arrears on the mortgage. It highlighted that for the five months after the mortgage reverted to repayment, Mr A had made the contractual payments in full and he hadn't raised a complaint until January 2022. It believed he would have raised his complaint as soon as the rate change had occurred if he had truly believed

the mortgage had permanently been on an interest-only basis. Barclays considered the £125 compensation it had paid was enough in the circumstances.

Our investigator considered what Barclays said, but was not persuaded to change her conclusions. Barclays didn't agree and it highlighted that while Mr A had spoken to it when the CMP increase happened, he hadn't raised a complaint until more than six months later. It would have expected the complaint to have been raised at the time if Mr A had believed the mortgage had been permanently converted to an interest-only basis.

As both parties disagreed with the investigator's conclusions, the complaint has been passed to me to consider.

I issued a provisional decision on 25 October 2022, in which I set out my conclusions and reasons for reaching them. Below is an excerpt.

*'Mr A has said that he considers the rate change offer is a legally binding contract putting his mortgage on an interest-only basis for the remainder of the term. Whether as a matter of contract law Barclays issued a new contract on interest-only terms, or varied the existing contract to interest-only terms, and is therefore bound by it, is ultimately a matter for a court to decide. I have taken that into account. However, I also have to consider the wider regulatory rules around mortgage lending and changes to existing mortgages, as well as what's fair and reasonable in all the circumstances. So the question of whether, as a matter of technical law, Barclays is bound by the terms of the product switch offer is only one factor for me to consider.'*

*Mr A has said that he believed that the repayment basis of his mortgage was permanently changed in June 2020. Barclays has been unable to provide the call recording of that conversation. However, it has provided its notes of the call and it appears that Mr A did want to permanently switch to an interest-only basis. However, it is equally clear that Barclays only agreed to a switch on a temporary basis which would last 12 months. The letter sent to Mr A confirming the arrangement also made it very clear that was the case. As such, I am satisfied that Mr A would have known that his mortgage was only temporarily on an interest-only basis and would revert to a repayment basis from June 2021.*

*In February 2021 Mr A then applied for a new interest rate product via Barclays website. The process was solely about the interest rate product he wanted, and he paid a fee for that product. There was nothing involved in the information Mr A inputted and requests he made that would have led him to believe that he was also applying to change the repayment basis of the mortgage. Indeed, as the mortgage was showing on Barclays' system at that time as being interest-only, it wouldn't have been possible for that application to be made, even if it had been theoretically possible to do via the website.*

*However, this is where the error then came in. As the documentation is autogenerated, the then current interest-only information fed through into the mortgage information sheet and, after Mr A confirmed he wanted the product, into the offer. The fact that the mortgage was only temporarily on an interest-only basis should have been reflected in that documentation, but it was not.*

*At the time Mr A would have reviewed this documentation, he knew that the mortgage was only temporarily on an interest-only basis, he knew that he hadn't done anything in the recent online application that would have changed it permanently, and the first page of the offer clearly said that it only related to a new interest rate being added to the existing mortgage. However, the content of the mortgage information sheet and the offer, indicated that the mortgage would be paid on an interest-only basis for the term of the product Mr A had applied for.*

*Barclays has accepted the documentation would have been confusing. Had Mr A been a layperson, I would go as far as to say the documentation might be considered misleading. However, as Mr A has pointed out, due to his former profession and qualifications, he has a substantial knowledge of mortgages and the mortgage industry. As such, I believe that he would have known that the information about the main features of the loan contradicted what was said on the first page of the offer and what he already knew about his mortgage. This could have caused confusion, but I am not persuaded that it would have misled Mr A into believing that the mortgage was permanently on an interest-only basis. Reasonably, in the circumstances, Mr A would have known that he would need to seek clarification before he completed the process of adding the new product to his mortgage.*

*As such, I am not persuaded that Barclays needs to take any action in this case, other than to compensate Mr A for the inconvenience of having provided him with contradictory, incorrect information in February 2021. Barclays offered £100 in this respect, but I don't consider that is enough. I intend to require it to increase the compensation payment to £200. While Barclays highlighted it had paid a further £25 to Mr A, I note that this was for poor service in handling the complaint, which is a different matter entirely, and not something I can comment on.*

*Should Mr A want his mortgage to be converted permanently to a repayment basis, he will need to approach Barclays and apply for the alteration in the usual way – Barclays has already explained this process. Barclays should assess any such application fairly, alongside any forbearance arrangements it puts in place to assist Mr A in his current financial difficulties and in dealing with the arrears on his account. I would recommend that Mr A speak to Barclays as a matter of urgency to discuss a way forward on that front and explore whether there is anything Barclays can do to assist him.'*

Barclays accepted my provisional decision.

Mr A didn't accept my conclusions. He reiterated that he considered that the rate change offer constituted a legal contract which permanently converted the mortgage to an interest-only basis. He asked that I uphold the complaint on the basis that there has been a clear breach of contract law.

### **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 have considered Mr A's comments about the rate change offer. However, it hasn't changed my conclusions and I would refer him back to my comments contained in my provisional decision about this issue.

### **My final decision**

My decision is that I uphold this complaint in part. I require Barclays Bank UK PLC, in full and final settlement, to pay Mr A a total of £200 (including that already offered) compensation for the confusion it caused him when it issued inaccurate documentation in February 2021.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr A to accept or reject my decision before 15 December 2022.

Derry Baxter

**Ombudsman**