DRN-4461904

The complaint

Mr C and Ms S complain that Barclays Bank UK PLC wouldn't agree to a new interest rate on their interest only mortgage, and wouldn't agree to extend the term.

What happened

Mr C and Ms S have an interest only mortgage with Barclays. They took it out in 2008 over a term of 15 years, ending in 2023.

In April 2023 Mr C and Ms S consulted a mortgage broker about taking a new interest rate. The broker applied for a five year fixed rate of 3.84%. Barclays declined the application because the fixed rate would extend beyond the end of the mortgage term, so Mr C and Ms S made an application for a term extension. Barclays declined the term extension application too.

Mr C and Ms S complained. They didn't think they'd been treated fairly. They said that the failure to give them a new fixed rate meant their mortgage payments were increasing. And they didn't understand why Barclays wasn't willing to extend the term – they thought it might be because it had discriminated against Mr C because he is unable to work through ill-health and in receipt of benefits.

Barclays didn't think it had acted unfairly, though it paid Mr C and Ms S £150 compensation for delays in responding to their complaint. Our investigator didn't think their complaint about the interest rate and term extension should be upheld, so Mr C and Ms S asked for an ombudsman to make a final decision.

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.

When Mr C and Ms S applied for a new interest rate, their application was declined because the term of the fixed rate was longer than the remaining term of their mortgage.

This was fair, because a new interest rate can only be applied for the same length as the remaining mortgage term or less. The rate Mr C and Ms S selected ran for five years, but they only had a few months left on their mortgage term. It's not possible to have an interest rate than runs for longer than the mortgage – not least because when Mr C and Ms S repay the mortgage at the end of the term, there would be an early repayment charge for ending the interest rate early.

Mr C and Ms S therefore applied for an extension of the mortgage term, to match the five year duration of the rate they'd selected.

They spoke to a Barclays adviser who took them through an application. I've listened to the calls they had with the adviser. They explained that they owned several buy to let properties which they intended to sell to repay this interest only mortgage – but they didn't want to do so yet because of early repayment charges on mortgages on the buy to let properties. And they wanted to take a new fixed rate in the meantime to guard against increases in their monthly payments due to rises in their existing tracker rate.

At the time of their application Ms S was in employment and Mr C was self-employed. But Mr C had recently had to reduce his work and was now in receipt of benefits because of ill-health. Both were in their late fifties at the time and said they planned to retire at age 67.

The adviser they spoke to explained that their application would go to an underwriter to make a decision on the term extension, and if that was granted they'd be able to book a rate for up to the new term.

The adviser did make clear more than once that this was an application and there was no guarantee it would be granted. She did say that she would be recommending a term extension for the underwriter to consider, but that it would be the underwriter's decision.

But, as Ms S pointed out to our investigator, the adviser also gave them a misleading impression of the chances of success. The reality was that it wasn't her decision, and she couldn't know what the underwriter would decide. But in discussing the future the adviser also assumed that it would be granted, and at one point wrongly told Mr C and Ms S that it had been. So I can see why Mr C and Ms S were left with the impression that the underwriter's review was a mere formality.

In fact, however, it wasn't. The underwriter rejected the application for a term extension. His reasons were largely because Mr C's income had recently reduced drastically, and he was concerned that the mortgage would no longer be affordable. Mr C and Ms S had the means to repay their mortgage now if they chose to do so, and extending the term, tying them into a fixed rate requiring them to make payments for five years or face an early repayment charge, risked making their situation worse and wasn't in their best interests.

Mr C and Ms S strongly disagree with this decision. They think it wasn't fair, and is potentially discriminatory against Mr C – his benefits providing a stable fixed income. They don't think they should be forced into selling their investment properties before they're ready to do so – at a time of their choosing, not Barclays'. And because the fixed rate couldn't go through without a term extension, they've been forced to pay more interest than they needed to.

I appreciate their strength of feeling. But, taking everything into account, I don't think Barclays has treated them unfairly.

This is an interest only mortgage and when they took it out Mr C and Ms S agreed that they'd repay the capital at the end of the agreed term. All other things being equal, it's not unreasonable for Barclays to expect them to do that as they said they would.

Where a borrower is unable to pay, I'd expect Barclays to show forbearance, and to work with them to reach a point where the mortgage can be repaid in the future if possible. But that isn't the case here. Mr C and Ms S could repay the mortgage at the end of the term – they have substantial equity in their investment properties (as well as in the property subject to this mortgage). So they do have the resources needed to repay.

I appreciate they'd rather wait another few years before doing so. That means they avoid early repayment charges on their buy to let mortgages and can benefit from the rental income for longer. It would benefit them financially to delay repayment – though that involves asking Barclays to absorb the cost of delayed repayment so Mr C and Ms S don't have to absorb the cost of repaying when they agreed they would. There's a cost to a lender in not getting back the capital it lent, even if it continues to receive interest in the meantime.

Nevertheless, I'd expect Barclays to give fair consideration to any application to extend the term. I think it did that. I don't think it was unfair to note that Mr C's income had fallen substantially recently, and to be concerned about the impact of that on Mr C and Ms S's ability to manage the mortgage payments over any extended term. They've pointed to more recent increases in their rental income, but that wasn't in place at the time of their application and so couldn't have been taken into account.

Based on what it knew of their finances at the time of the application, I don't think it was unreasonable for Barclays to be concerned about a term extension, tying Mr C and Ms S into making repayments for a further five years, when there were legitimate grounds for being concerned about whether doing so would be affordable on their reduced income. Barclays didn't disregard Mr C's benefits income, but it did take into account that the benefit payments were lower than his previous self-employed income – which I think was fair.

Taking all that into account, I don't think Barclays' decision was unreasonable. Mr C and Ms S had agreed to repay their mortgage at the end of the existing term, and had the resources to be able to do so if they chose. The alternative, of extending the term, carried additional risks and so Barclays concluded that, on balance, it didn't think those risks meant that a term extension would be in their best interests.

As I've said, I think the adviser Mr C and Ms S dealt with could have managed their expectations better. While she made clear that it would ultimately be an underwriter's decision, she was more confident of the outcome than was justified. But I don't think that means that Barclays guaranteed that it would be agreed, or is required to override the underwriter's decision now.

The term of Mr C and Ms S's mortgage ends shortly. And so they'll need to engage with Barclays about their plans to repay the capital. Barclays should continue to treat them fairly and give fair consideration to any proposals they might make.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Ms S to accept or reject my decision before 21 December 2023.

Simon Pugh
Ombudsman