PENNINGTONS MANCHES

GPDF Listening Supporting Influencing

INFORMATION NOTE FOR GP PRACTICES: MIS-SELLING OF FIXED RATE LOANS & INTEREST RATE SWAPS

1. WHAT ARE FIXED RATE LOANS AND INTEREST RATE SWAPS?

A fixed rate loan or mortgage, is a loan where the interest rate is fixed for the term of the loan and doesn't fluctuate.

Interest rate swaps are complex financial contracts which protect against interest rate risk by swapping a fixed rate of interest for a variable rate of interest.

Fixed rate loans or mortgages are sometimes packaged with an interest rate swap. The customer is not always aware of this. If the customer wishes to refinance the loan, for example if interest rates drop, and the loan is packaged with a swap, they can be faced with large penalties.

Lenders benefit from selling fixed rate loans packaged with interest rate swaps because the existence of the swap allows them to sell the fixed rate element of the loans on to the derivatives market, and buy back the loan at a lower floating rate of interest.

2. WHY IS THIS RELEVANT TO GP PRACTICES?

The Financial Times reported in September this year that the Financial Conduct Authority (FCA) was launching an investigation into mis-selling of financial products to GP practices. This investigation relates to fixed rate loans or mortgages packaged with interest rate swaps that were sold by lenders to many GP practices to finance practice premises.

Many of these fixed rate mortgages with an interest rate swap embedded will have been provided on a long term basis. This means that if interest rates drop, the practice could be paying interest rates far higher than the market rate for many years, and cannot refinance due to the high penalties associated with exiting the interest rate swap.

In addition, GPs can be faced with difficulties retiring from practice as new partners do not want to take on repayment of a high interest loan with huge exit costs.

3. HAVE I BEEN MIS-SOLD A FIXED RATE LOAN/INTEREST RATE SWAP?

Your fixed rate loan may have been mis-sold to you if it was packaged with an interest rate swap and:

- you were not aware of the existence of the interest rate swap;
- you were aware of the existence of the swap but were led to believe there was no other option;
- you were given unsuitable advice;
- the risks were not explained to you;
- the penalties associated with refinancing were not explained to you; and/or
- you were not given the information you needed and ended up with a product that isn't right for you.

4. WHAT SHOULD I DO NEXT?

Penningtons Manches solicitors have agreed to provide a telephone consultation without charge to discuss whether you may have a claim against your lender. Please contact John Canning at doo@gpdf.org.uk to arrange a call.

Ordinarily, a legal claim must be brought within 6 years of the sale of the fixed rate loan/interest rate swap. However, there are exceptions to this general rule.