

The complaint

Mr and Mrs B complain Barclays Bank UK PLC overcharged them interest on their mortgage account in March 2020. They're also unhappy with the service they received from Barclays after they raised their concerns.

What happened

Mr and Mrs B held a mortgage of around £659,700. In February 2019, they applied to change their mortgage product from a fixed rate to a variable interest rate tracking the Bank of England base rate ("base rate") plus 0.68% ("the margin") for an initial period of 24 months. At that time, the base rate was 0.75%. So the rate on their mortgage was 1.43%. The term of the mortgage was 33 years with monthly repayments of around £2,090 for the first 24 months.

On 11 March 2020, the base rate changed from 0.75% to 0.25%. And on 19 March 2020, it changed again to 0.10%. But Mr and Mrs B noticed the interest rate applied to their outstanding balance didn't change. On 16 March 2020, Barclays sent Mr and Mrs B a revised payment notice explaining their monthly repayments and the interest rate on their mortgage would be changing to 0.93% from 1 April 2020 to reflect the base rate change.

As Mr and Mrs B were unhappy the rate hadn't changed immediately to maintain the margin of 0.68% above the base rate, they made a complaint to Barclays that it wasn't acting in line with the terms and conditions on the account. They've said they were told the interest rate wouldn't usually be updated immediately. And in its final response letter, Barclays said customers wouldn't see a change in the payments until the following month as the contractual monthly payments are calculated in arrears.

Unhappy with Barclays' response, Mr and Mrs B asked our service to look into things. They highlighted it hadn't addressed the specific complaint they'd raised about the interest rate change – and instead focussed on the contractual monthly payment changing. They also explained they'd suffered inconvenience in having to chase Barclays to get an answer.

Our investigator didn't uphold the complaint. She said she wouldn't expect Barclays to apply changes to the interest rate immediately as it needs time to notify customers. As Mr and Mrs B didn't agree with our investigator's opinion, the complaint was passed to me to decide. I was given the mortgage offer, terms and conditions on the account, the transaction list and correspondence to Mr and Mrs B about the account.

I issued a provisional decision on this complaint in March 2022. I've copied my provisional findings below which forms part of this decision.

'I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Based on what I've seen so far, I'm planning to uphold this complaint. I'll explain why.'

The mortgage offer I've been given says the mortgage was on a rate which varies in accordance with the base rate. Mr and Mrs B have also given our service a copy of the residential mortgage conditions they received when they took their mortgage. Barclays has confirmed it is the correct and relevant edition. Under section four, the terms and conditions explain what happens if the interest rate changes. This includes an illustration of how the rate would be calculated if it changed midway through an interest period. It says:

'...[W]e will use the old rate to calculate the interest you have to pay up to the date the new rate takes effect and then use the new rate for the rest of the interest period.

We will adjust your monthly payment to take account of the interest rate change.'

The illustration also shows the old rate would be applied until the date the rate changes, after which, the new rate would apply. So I am currently satisfied under these terms, the interest rate change would apply immediately.

In this case, according to the mortgage offer, Mr and Mrs B's rate should have been set at 0.68% above the base rate. From 11 March 2020 until 18 March 2020, that would mean the rate that should've applied to their mortgage was 0.93%. And from 19 March 2020, it should've been 0.78%. But having looked at the transaction list I've been given by Barclays, I can see the interest rate applied until the end of March 2020 was 1.43% and it didn't reflect the change in the base rate until 1 April 2020.

Section seven of the terms and conditions specifically relates to changes to the rate for mortgages tracking external reference rates including the Bank of England base rate. So this is the relevant section for Mr and Mrs B's mortgage account. This says:

'The interest rate applicable to your loan will be the reference rate plus the margin. The "margin" is the extra interest rate percentage points above the reference rate charged for your mortgage product that is set out in your Offer Letter.'

And it goes on to explain:

'We will never change the agreed margin set out in your Offer Letter'.

The margin set out in Mr and Mrs B's offer letter was 0.68% above the base rate. But the interest rate wasn't amended to reflect the change in the base rate until around three weeks after it first changed. That means, for that period, the margin applied to Mr and Mrs B's mortgage was actually 1.18% until 18 March 2020 and 1.33%. So it had changed without their agreement.

Barclays has sent me the terms and conditions for 2018 and 2020. I note in the section relating to reference rate tracker mortgages, the 2020 edition says:

'Any variation to the interest rate as a result of a change in the reference rate will take place within one month of the announcement of such change.'

I haven't considered whether this wording means the rate doesn't need to be changed immediately in light of the remaining terms and conditions. But I do question why it was added from 2020 if Barclays' terms always allowed it to delay changes to the interest rate.

I appreciate Barclays has said the contractual monthly payments are collected in arrears so Mr and Mrs B wouldn't notice a difference in their payments until the following month. But I don't think that makes a difference here. Whilst the monthly payment might be adjusted the following month, based on what I've seen so far, I'm satisfied under the terms of the mortgage, the daily interest added to the balance should have been changed immediately.

Mr and Mrs B have said Barclays has not looked into their specific concerns and I can see from their final response letter that seems to be the case. They've given dates and times they called to chase for a response and to explain things again. And I accept that would've caused them inconvenience whilst also feeling frustrated they hadn't been listened to.'

To put things right in this case, I thought Barclays should rework Mr and Mrs B's account as though the interest rate had changed on 11 March 2020 and 19 March 2020 in line with the base rate. And it should refund any overpayments they might've made plus 8% simple interest on that amount. I also thought it should pay Mr and Mrs B £100 as compensation.

I asked both parties to make any further comments before I reached my final decision. Mr and Mrs B didn't think the amount of compensation I'd suggested Barclays pay was enough considering the amount of time they'd spent on the complaint. They thought a fairer amount would be £500 based on Mr B's professional earnings. They also highlighted Barclays hadn't made our time limits clear to them.

Barclays didn't accept my provisional findings but it offered £450 as a gesture of goodwill. It said in summary:

- There's no exact timescale in the terms for when the interest rate will be amended to reflect changes in the base rate.
- The additional wording in the 2020 terms was added as part of its standard updates to continuously improve things for customers. It doesn't indicate any changes in timescales.
- The terms and conditions say Barclays will advertise when the base rate has changed but this doesn't mean it has to reflect those changes on customer accounts immediately.
- It doesn't agree with my interpretation of the illustration under section four of the terms and conditions. Instead it says the old rate applies until the new rate takes effect. And that point is whenever Barclays updates the interest rate on the account.
- It didn't change the margin on Mr and Mrs B's account.
- Changes to the base rate take time to update on the system whether it goes up or down. And that's not an unusual industry practice.
- Its offer of £450 is more than the difference in payments Mr and Mrs B made between the time the base rate went down and when the rate on their account was reduced. After calculating the settlement I'd suggested, it confirmed its offer is more generous.

Mr and Mrs B declined Barclays' offer as it didn't provide any separate compensation for the inconvenience they've suffered. They also weren't happy Barclays hadn't acknowledged the terms and conditions of the mortgage were applied incorrectly.

In July 2022, I issued a second provisional decision to both parties. In my provisional decision, I said:

I've thought very carefully about what both parties have said, and I think this complaint should still be upheld. But I think Barclays should put things right by paying the offer it's now made as it puts Mr and Mrs B in a better position than the settlement I suggested. And I don't agree with Mr and Mrs B that it should pay them more compensation. I'll explain why.

Terms and conditions of the account

Barclays has highlighted the terms and conditions of Mr and Mrs B's account don't specify timeframes for making changes. But I've considered each term in light of the contract as a whole and where terms are ambiguous or unclear, I've read them in favour of Mr and Mrs B. Based on this, I don't accept its interpretation of the terms.

Barclays has said it didn't change the margin on Mr and Mrs B's account and it remained at the same level until their interest rate was updated in April 2020 but I don't agree. Under the terms, the margin on Mr and Mrs B's account should have been 0.68% above the base rate at all times unless they agreed to it changing. By Barclays not amending Mr and Mrs B's rate on their account for around three weeks, the margin between the base rate and the rate on their account went above 0.68% - first 1.18% and then 1.33%. Barclays' terms say it'll never change the margin without agreement and it is responsible for setting and maintaining the margin. So by it not taking action, in effect, I'm satisfied it changed it.

Barclays says it has no control over the base rate as it's an external rate set by the Bank of England – and I accept that. But it did decide on and set the margin which formed part of the mortgage offer. So, when the base rate went down, the interest rate on Mr and Mrs B's account should've also gone down to maintain the same margin. I've seen nothing on this case to suggest Barclays got Mr and Mrs B's agreement for the margin to change, even temporarily. So I'm satisfied it didn't apply its terms correctly in this case.

I note Barclays has said the terms changed in the 2020 edition as part of its regular review to improve things for customers. And I understand that's standard practice. But if, as it says, the contract terms were already clear enough about the timescale in which changes need to be made, I question why this new wording was needed.

Barclays has said the illustration under section four means the new rate takes effect and the old rate ends whenever the customer's personal interest rate is updated – and it's got nothing to do with the base rate changing. But I'm not satisfied that makes sense here. I say this because of course the new rate will start whenever Barclays applies it so I can't see why that would be highlighted in the terms and conditions.

I appreciate Barclays' internal systems might not allow for rate changes to take effect immediately – and I accept it might not be standard industry practice to do so. But I need to take into account the law, good practice and what's fair and reasonable in the individual circumstances when deciding this complaint. And in this case, I'm satisfied under the terms of the account, changes in the base rate should be reflected straight away and I think Mr and Mrs B relied on those terms.

Distress and inconvenience

To decide what's a fair amount of compensation in this case, I've considered the likely impact of what went wrong on Mr and Mrs B. In particular, I've thought about the time they spent chasing Barclays and that Barclays didn't do what it said, looked into the wrong thing and closed their case incorrectly.

From Mr and Mrs B's timeline, it seems they spoke to Barclays around five times to get updates and explain what their complaint was about again. And the total amount of time from when they first got in touch with Barclays to when they received its second final response letter was around six weeks. So whilst I accept their experience must've been frustrating and caused them some inconvenience, I'm satisfied the amount of compensation I've suggested, is enough to make up for this.

Mr B's given us details of his professional earnings but I don't think that's relevant here as he's brought the complaint in his personal capacity and I haven't seen any suggestion he couldn't work as a consequence of the complaint. So I don't think it would be fair in this case to calculate the compensation based on his earnings.

Mr and Mrs B are also unhappy Barclays didn't highlight they had six months from the date of its first final response letter to refer their complaint to our service. But I'm satisfied the information is included in that letter. And in any event, they did refer their complaint in time.

To put things right in this case, Barclays should pay Mr and Mrs B the £450 it's offered them. I am not directing it to pay any additional compensation in addition to this offer.

I asked both parties to make any further comments in response to my second provisional decision. Mr and Mrs B didn't respond by the deadline set. Barclays asked whether the complaint could be settled informally.

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.

As neither party made any further comments about my findings in my second provisional decision, I see no reason to change my conclusions set out. So I uphold this complaint for the reasons given in my provisional decisions.

Putting things right

To put things right in this case, Barclays should pay Mr and Mrs B the £450 it's offered them. It does not need to pay any additional compensation in addition to this offer.

My final decision

For the reasons I've given, I uphold Mr and Mrs B's complaint and direct Barclays Bank UK PLC to put things right by doing what I've said above. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs B to accept or reject my decision before 28 September 2022.

Nadya Neve
Ombudsman