

The complaint

Mr D's complaint about Barclays Bank UK PLC (Barclays) relates to their decision not to refund an overpayment made he made to his mortgage account, and also the application of a Final Repayment Charge (FRC) when he redeemed his mortgage early.

What happened

Mr D had a mortgage with Barclays and also a mortgage current account with a mortgage reserve (MCA). In October 2020 he requested a redemption statement for his mortgage account and was told the sum outstanding was £503.89.

On 16 October 2020, Mr D's direct debit (DD) left his account for the full contractual amount of £908.43 putting the mortgage account into a credit position of £404.46. Mr D asked Barclays to refund the credit into his current account but they refused and paid it into his MCA on which there was an outstanding balance.

In February 2021 Mr D contacted Barclays and asked for a redemption statement for his MCA which he was given. He then immediately paid that figure in full.

Mr D also complains that he received a demand for £275 in relation to a FRC which he says he wasn't told about when he asked for a redemption figure.

Barclays accept that it paid the mortgage account credit into Mr D's MCA and said that when the mortgage account was redeemed it was expected that the full balance on the MCA would also be repaid. As such Barclays applied the credit on the mortgage account to the MCA to reduce the sum outstanding.

Barclays also accept it issued a demand for the FRC, but that Mr D was aware of that charge as it is set out at Section 8 of his mortgage offer and was drawn to his attention during a phone call on 6 October 2020.

Mr D was unhappy with Barclays's final response and so approached this service to see if we could assist in resolving the dispute. Our investigator thought that Barclays hadn't done anything wrong and had dealt with the complaint fairly, as it has applied the credit to a legitimate outstanding balance.

Mr D didn't agree and asked for the complaint to be passed to an Ombudsman for 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.

The accepted facts are that Mr D's last payment was on 16 October 2020 in the sum of £908.43. This was the normal monthly payment he made by DD. This created the credit balance of £404.46 on his account. Mr D cancelled his DD through Online/Mobile banking on 23 October 2020, which is after the DD payment was made. Barclays have not explained why it took more under the last DD than was actually due. It seems to me that it would have been only fair to Mr D that it took only what was required to redeem the mortgage, rather than creating a credit balance on the account.

I have also seen a letter Barclays wrote to Mr D dated 26 April 2021, which was in response to his request for the redemption statement. That letter explains that the redemption figure provided was illustrative only, because the precise figure would change depending upon when redemption actually took place. The letter also explains that payments made after the redemption statement was issued weren't factored in and that Barclays would refund any such payments back to the account from which they were paid.

The issue here therefore is whether it was fair and reasonable for Barclays to do what they did. I don't think it was.

Barclays have confirmed that there is nothing in their internal policy or terms and conditions (T&Cs) where it states or was agreed that they could transfer the monies as they did. They argue that it was expected that the MCA balance would be repaid on the redemption of the mortgage, because the T&Cs provide for that. I don't think it can be disputed that Mr D agreed to repay the MCA if he redeemed his mortgage.

But that is not the same thing as saying that Mr D agreed to either make an overpayment through his DD to the mortgage account or having done so that he gave permission for the credit to be applied to his MCA account. And I also note that Barclays initially told Mr D that the overpayment he'd made could be refunded to him, or that he could choose to apply it to the MCA. What this means is that Mr D was led to believe he would in fact receive the overpayment back, and in addition to which he had also agreed a repayment plan for the MCA. All of this leads me to the conclusion that it wasn't reasonable of Barclays to transfer the overpayment to the MCA. I think it would have been reasonable, and fair, if Barclays had obtained his permission before making that transfer.

In so far as the FRC is concerned, I think Barclays were correct in charging this since Mr D did agree to the charge when he took out the mortgage. I have seen the mortgage offer which refers to the FRC at sections 8 and 10. I have listened to the call on 6 October I can hear that Mr D was told again of the existence and application of the FRC, so I am satisfied that he knew of it and it was right to apply it. It is clear from the call that Mr D was not happy about paying the charge, but it nevertheless remains the case that he agreed to it when taking out the mortgage.

I have considered whether it would be fair to ask Barclays to now repay to Mr D the credit balance of £404.46 but if they were to do that it would put his MCA account in debit, as it has since been redeemed. And the money which was transferred is clearly a sum which Mr D owed to Barclays in any event. So, I don't think it's fair to ask Barclays to simply refund Mr D now.

Barclays and Mr D have responded to my provisional decision to say they agree with it.

Putting things right

What Mr D has really lost is the use of the money had it been transferred back to him. In this respect I think Barclays should therefore refund to Mr D interest on the £404.46 at the rate of

8%, less the interest he saved by having the £404.46 applied to the MCA. The calculation of 8% should run from the date of last DD being the 16 October 2020 to the date of payment of the refund.

My final decision

Barclays Bank UK PLC must refund to Mr D interest on the £404.46 at the rate of 8%, less the interest he saved by having the £404.46 applied to the MCA. The calculation of 8% should run from the date of last DD being the 16 October 2020 to the date of payment of the refund.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 31 May 2022.

Jonathan Willis
Ombudsman