

The complaint

Mr and Mrs S said that they had been extremely distressed by incorrect information given to them by Barclays Bank UK PLC, and they'd lost confidence that their mortgage was being properly managed. They wanted Barclays to reduce their mortgage, as it had offered to.

What happened

Mr and Mrs S told us about their personal circumstances, which have reduced their household income. They contacted Barclays on 18 August 2021 about their mortgage, to discuss possibly paying the remaining balance, or paying off a smaller amount of £17,000. They wanted to know what their mortgage balance would be, if they paid this amount.

Mr and Mrs S were told on the call that they had a "prepayment balance" of almost £5,000 which could be used to reduce the overall balance on their mortgage. Mrs S said she'd asked the call handler to check this with another staff member, and they'd done so.

On the same day, Mr and Mrs S said that they received a "refund" of £1,782.21, which didn't come off the balance, and then further "refunds" appeared for May 2020 (£1,100) and September 2020 (£2,824.30) although Mr and Mrs S said neither of these were on their statement before 18 August 2021. They said none of these sums had reduced the outstanding balance or years remaining on the mortgage. Mr and Mrs S said they contacted Barclays to ask what these refunds were, but received no reply.

Mrs S had asked for the £4,867.15 "prepayment balance" which Barclays had told her about to be taken off the current balance. That was supposed to take five days. On 25 August 2021 they got a letter from Barclays saying they had a potential payment of £4,606.51 which could be used as a part redemption. They said this should have been £4,867.15.

Mr and Mrs S contacted Barclays, and it said that there was still £260.64 in their prepayment balance. And when they complained that their mortgage balance hadn't gone down, they were told that this part of the call was wrong, they'd been misinformed.

Barclays has offered them £50 for the mistake, but Mr and Mrs S said that this was derisory, especially given the mistake that Barclays had made. And they also thought that some of Barclays' figures must be wrong, because the refunds hadn't come off the balance. Mr and Mrs S wanted us to help.

Barclays said that it hadn't actually done anything wrong at all with Mr and Mrs S's mortgage. But it did accept that, on the call on 18 August, its agent gave some incorrect information at the end. He had confirmed that their prepayment balance could be taken off the existing balance, so Mr and Mrs S would only owe under £23,000, not £27,000. That wasn't right, their mortgage total already reflected these payments. Because that mistake had caused confusion, Barclays thought that it should pay Mr and Mrs S £50.

Our investigator thought this complaint should be upheld. He said that Barclays had caused inconvenience and upset. But he thought it should pay compensation to make up for that, not reduce the balance of Mr and Mrs S's mortgage.

Our investigator said that Barclays treats extra payments to a mortgage differently, depending on how much the payment is. When Barclays receives a lump sum overpayment which is over three times the monthly contractual amount, this is deemed as a lump sum payment and it reduces the monthly mortgage payment – all other terms of the mortgage stay the same. But when it receives overpayments lower than 3 times the contractual monthly amount these build up in an “overpayment balance” which Barclays takes into account when it calculates the interest payments.

But he said that whenever any sort of overpayment is made, the overall mortgage balance immediately reduces. He could see that the overpayment balance had been increasing as Mr and Mrs S made their overpayments. And the balance has also been reduced by this amount. So Barclays was wrong to tell Mr and Mrs S that the overpayment balance of £4,867.15 could be used to further reduce their balance. It had already done that.

Our investigator said that our service won't provide a full audit of the mortgage. But he said he couldn't see any reason to think the balance should be reduced by almost £5,000 now. He thought it had reduced as he would expect.

But he said information on the 18 August call was wrong. And he said Barclays hadn't explained why it then capitalised amounts of £1,782.21 and £2,824.30, leaving an overpayment balance of £260.64. Mr and Mrs S had asked for the full overpayment balance to be capitalised. For those reasons, he said Barclays should pay compensation, and he didn't think £50 was enough. He suggested Barclays should pay £150.

Barclays accepted this, but Mr and Mrs S didn't. They said that Barclays had told them they could take almost £5,000 off their mortgage, and if that was a mistake, it was a catastrophic one. Mr and Mrs S still thought they should be paid considerably more compensation, but our investigator didn't change his mind. So this case was passed to me for a final decision.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

Like our investigator, I don't think that Barclays does need to reduce the balance on Mr and Mrs S's mortgage. But, again like our investigator, I think that Barclays has caused a considerable amount of confusion in this case. And I agree that Barclays should pay compensation because of this.

Mortgages are a surprisingly complex financial product, and it's important that banks explain what's happening in a clear and straightforward way. It can cause confusion and mistrust when they fail to do so. Even if the bank hasn't done anything wrong, a mistake in explaining what's happening on a mortgage can often make customers think it has.

I think that's what's happened here.

So I'd like to start by setting out for Mr and Mrs S what I think they should have been told - what happens with overpayments.

I can see that they have been paying a little over the contractual monthly amount, each month. And they have also made other, much larger, overpayments. Barclays treats these larger and smaller payments slightly differently.

But the most important thing here, is that whenever Barclays receives an overpayment, of any size, that amount comes straight off the balance on the mortgage. That's the first thing Barclays does, whenever someone pays more than they've been asked for in any month. It takes that money off the total owed.

Then, there are two ways for Barclays to reflect that the customer owes less money now.

Some customers will want to pay their mortgage for the same length of time, but pay less each month. Barclays (like other banks) calls this sort of adjustment "capitalisation".

Other customers will want to pay the same amount each month, but end their mortgage sooner. Barclays refers to the amount of money that it's using to reduce the time that people have to pay, not to reduce the monthly amount of that payment, as an "overpayment balance" or "prepayment balance".

Of course, not everyone gets in touch to tell Barclays what to do when they make repayments. So Barclays has set out what it will do if customers don't get in touch. It will treat payments differently, depending on how large they are.

If someone makes very large overpayments, more than three times the amount that's due each month, Barclays will reflect this by asking them to pay less each month (unless customers ask it to do something different).

And if someone makes smaller overpayments, then Barclays will reflect this by telling them that the length of time they have to run on their mortgage is now shorter (unless customers ask it to do something different).

So when Mr and Mrs S paid lump sums of £3,000, that reduced their contractual monthly payment. But when they just paid around £40 extra on each monthly payment, Barclays used that money to shorten the term of their mortgage.

When Barclays uses an overpayment to shorten the term of the mortgage, it has to keep a note of two figures.

Firstly, of course, Barclays keeps a note of what the customer owes now. That's the balance, and that always takes account of all the payments a customer has made.

But because Barclays hasn't just changed the monthly payment for a customer, it also needs to know how much the customer has overpaid, which it's accounting for in this particular way. This is the "overpayments balance" or "prepayment balance". Barclays must keep a note of this, so it can still work out what the level of monthly repayments was, before the balance was reduced.

So the "prepayment balance" that Mr and Mrs S had, was simply the amount that they had overpaid through smaller payments on the mortgage, which Barclays had treated in one particular way – using it to shorten the time left on Mr and Mrs S's mortgage.

And all Barclays was offering to do by "capitalising" their mortgage, was to account for this money in a different way. To allow them to use this money to pay less per month, instead of shortening the overall term.

Barclays never meant to say that it could remove a further £5,000 from Mr and Mrs S's overall mortgage balance. That was always a mistake. That amount was only ever a running total of how much Mr and Mrs S had overpaid through their smaller payments.

And it had already been taken off the overall mortgage balance. As I've explained, Barclays did that as soon as it had received those overpayments.

And I think that Barclays then made another mistake, because Mrs S had asked it to capitalise the full amount of the "prepayment balance". And it didn't, it capitalised most of it instead. It hasn't explained why it did that.

All this has caused confusion, and mistrust. And I think that's Barclays' fault.

Our investigator explained that our service won't audit someone's mortgage; that's not quite what we're here for. But I have looked at Mr and Mrs S's statements, and like our investigator, I think the amount they owe is reducing in the way I would expect. (I understand that Mr and Mrs S no longer have a full set of these statements. Our service will arrange for them to receive the copies we have.)

Mr and Mrs S wanted to draw our attention to three refund amounts on their statements. One is in May 2020. Barclays says that was an actual refund, money it paid back to Mr and Mrs S because it had taken a payment for two months when they were supposed to be on a payment holiday. (This is different to the later payments Mr and Mrs S wanted to draw our attention to, it only appears on the statement once.)

Then there are two more, in September 2020 and August 2021, for £2,824.30 and £1,782.21 respectively. These are the "capitalisations" that Barclays has done, to account differently for the money that Mr and Mrs S have overpaid. But this is an administrative change, not a reduction to the balance overall, which is why those numbers appear as a debit AND a credit on Mr and Mrs S's statement.

I hope this will help to reassure Mr and Mrs S. And I also want to take account of the confusion and distress that this complaint has caused.

I've explained I don't think Barclays had any money that it hadn't taken off Mr and Mrs S's overall mortgage balance. So I don't think it has to reduce the balance of their mortgage by the amount it mentioned on the phone.

But I think Barclays didn't just make one mistake, in explaining how it would use the "prepayment balance", it then made another, in using most of the balance not all of it. And, importantly, I can't see that Barclays has ever explained all of this to Mr and Mrs S, in a way that means they've been reassured.

I think this has been unhelpful, especially in Mr and Mrs S's circumstances, of trying to plan for a reduced income. They've told us about the circumstances which have let to them living on a reduced income, and explained this is likely to continue into the future.

They've also explained how carefully they need to budget, and that they have only managed to pay down this mortgage using small amounts of inheritance money, redundancy money and most recently through cashing in a pension. So I can understand why any uncertainty around money would have more of an impact on them. And why finding that they do not have an extra £5,000 to take off their mortgage would be so disappointing and upsetting.

Our role isn't to fine or punish Barclays here. Rather, I have to take into account the impact on Mr and Mrs S when I assess compensation. But I do think that this mistake has had a greater impact in their circumstances. Because of that, I think Barclays should pay a little more compensation than our investigator suggested. I think it should pay Mr

and Mrs S £250 for this complaint. If Barclays has already paid the £50 it has previously offered, it can count that amount towards this total.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both parties replied. Barclays said it had nothing to add. Mr and Mrs S wanted to know why the compensation amount wasn't more.

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.

Mr and Mrs S said they felt we were letting Barclays off very lightly. They asked our investigator why I was only awarding £250, when he'd mentioned £500 on the phone. But our investigator said that he'd suggested £150. And he said I thought this should be increased to £250.

Mr and Mrs S said that neither £250 nor £500 would make up for Barclays' poor service. They expressed strong feelings about the case, and financial services providers in general.

I appreciate how strongly Mr and Mrs S do feel about this case. But I've also explained that our role isn't to punish Barclays. And we know there was never a missing £5,000 that could be taken off Mr and Mrs S's outstanding mortgage. So I still don't think it's appropriate here to ask Barclays to make a payment of that scale. Instead, I've sought to take account of how disappointing it must have been for Mr and Mrs S to realise this, and how upsetting this was for them. But I still think that a payment of £250 provides a fair and reasonable outcome to this complaint.

My final decision

My final decision is that Barclays Bank UK PLC must pay Mr and Mrs S £250. If Barclays Bank UK PLC has already paid Mr and Mrs S £50 for this complaint, it can count that amount towards this total.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 18 July 2022.

Esther Absalom-Gough

Ombudsman