

## The complaint

Mr S is unhappy that Barclays Bank UK Plc has turned off the 'rebalancing' feature on his mortgage current account (MCA). Mr S is also unhappy that the MCA is charged at a different rate of interest from his main mortgage account.

To settle the complaint Mr S wants Barclays to reduce the interest rate on the MCA to the rate of interest applied to the mortgage and to reinstate the rebalancing feature.

## What happened

Mr S has a mortgage account with Barclays, originally taken out in 2003 when Mr S borrowed £150,245 on a capital repayment basis over a term of 19 years. In 2007 (when the outstanding balance on the mortgage was about £127,000) Mr S took out a further advance of £148,180, on a capital repayment basis, over a term of 19 years, bringing his total borrowing at that time to £275,908.09. The current balance on the mortgage across both accounts is approximately £100,000 and approximately £172,000 on the MCA.

The mortgage comes with a related product, the MCA. The MCA is an overdraft facility, which works like this: as each £2,000 of capital is repaid off the mortgage, the overdraft limit on the MCA increases by the same amount, due to what Barclays calls 'rebalancing'. This can be spent by the borrower, through the mortgage current account. But it's not intended to be an additional regular income stream for the borrower; nor should it be used to make the mortgage repayments or be used to pay the interest on the MCA.

Borrowers are free to repay the overdraft, in part or in full, if they wish to do so, at any time. Customers can pay money into the MCA if they want to, and operate it in credit. If there is a credit balance, interest accruing on that balance can, if the customer requests it, be offset against the mortgage interest. But the MCA in this case isn't in credit and so it operates as an overdraft facility with debit interest accruing on the outstanding balance.

The overdraft also becomes immediately repayable in full when the related mortgage account is repaid – either when the mortgage reaches the end of its term or if the mortgage is repaid sooner (for example, on sale or remortgage of the property).

The MCA operates on an interest-only basis. Interest is currently charged on the overdraft balance at Bank of England Base Rate + 4.49%, except where the mortgage is a specific offset mortgages, where interest is charged at the offset mortgage rate. (This is not that type of mortgage.)

In 2020, Mr S took a six-month payment holiday, as a result of the pandemic. At the end of the six months, he spoke to Barclays, in September 2020 when Barclays noted that Mr S was in full-time employment, but wasn't going to receive an annual bonus. Barclays discussed whether a three-month interest-only concession might help, but Mr S didn't want this. He said he would pay the monthly mortgage payment as well as the interest on the MCA. However, Mr S was told that Barclays had switched off the rebalancing feature on the MCA. At Mr S's request, Barclays also transferred overpayments to the MCA from the mortgage account.

Mr S complained to Barclays, not only about the withdrawal of the rebalancing feature, but about the interest rate applied to the MCA. Mr S says it should be the same as the interest charged on his mortgage account.

Barclays didn't uphold the complaint so Mr S brought it to our service. An investigator looked at what had happened. She didn't think Barclays had treated Mr S fairly and told the bank that it should rework the mortgage account to show that the monthly payment had been made each month, and by reinstating the rebalancing facility. She also told Barclays to update Mr S's credit report to reflect the reworked mortgage account and MCA, and pay Mr S £500 for distress and inconvenience.

The investigator decided that withdrawing the MCA reserve would be more damaging to Mr S than the bank's duty to act as a responsible lender in line with Financial Conduct Authority (FCA) principles. So notwithstanding the long-term implications of increasing Mr S's debt, the investigator didn't think Barclays had acted in Mr S's best interests.

Mr S accepted the investigator's findings but Barclays did not. In summary, Barclays said its actions had been necessary because Mr S was using the MCA to pay the accrued interest on the overdraft, and so was increasing his debt. Barclays explained that Mr S had exceeded his overdraft limit by £12,000.

### **Provisional decision of 28 November 2022**

I issued a provisional decision, in which I reached the following conclusions.

I will begin by addressing Mr S's concerns about the interest rate on the MCA. This is not the same as the interest rate on the mortgage; the MCA is charged at Barclays' standard variable rate. I'm satisfied that this is explained in the annual statements Mr S has sent us, dating back to 2003 onwards.

Given this, I'm satisfied Barclays has done nothing wrong in relation to the interest rate applied to the MCA. I'm not upholding this part of the complaint.

I note Barclays used overpayments made to the mortgage account to cover the interest accruing on the MCA. Barclays is allowed to set off overpayments in this way in order to mitigate any deficit between the two accounts.

I'm also not persuaded the bank has done anything wrong in its decision to remove the rebalancing feature on the MCA. The starting point here is that the MCA reserve is discretionary. There is no automatic entitlement to it, and this is explained in the terms and conditions.

In 2012 the regulator, the Financial Conduct Authority, published the Mortgage Market Review, which in 2014 led to changes in the rules relating to responsible lending. Following this, Barclays reviewed generally whether allowing rebalancing on accounts which had the MCA was within its regulatory obligations to lend responsibly.

In theory, if mortgage accounts rebalanced to increase the MCA reserve to correspond with capital repaid, this could have serious repercussions for some borrowers. By the end date of the mortgage, if the MCA had been used to its full

extent, borrowers would find they owed the same amount on the last day of the mortgage (via the MCA overdraft) as they did on the day they took out the mortgage. And they'd have to repay it in full, in a lump sum.

A particular concern to Barclays was where borrowers were using the MCA as a regular source of extra income, rather than as a reserve which would be available to be drawn on only if and when it might be needed. Barclays realised that this could result in financial difficulties for some customers. So, to meet its regulatory obligations to lend responsibly, Barclays reviewed the use of the MCA across its accounts, and decided to cap or reduce the available amount in cases where there were concerns about the use of the MCA. I'm satisfied that Barclays is entitled to do this.

I don't think Barclays made an error in turning the rebalancing feature off, as that was a necessary system change to prevent Mr S's account from showing as being in arrears whilst the payment holiday was in place. However, I do think Mr S should have been made aware before taking the payment holiday that the rebalancing feature would be turned off and that, once removed, it couldn't be reinstated.

The FCA issued guidance to lenders about how to support borrowers who had taken payment holidays on their mortgages during the pandemic. Where a payment holiday had been agreed, it meant that payments that would normally have been made to the account had not been made, and so the mortgage balance was higher than it would have been had the mortgage been operated normally. More interest would also be charged as a result, as the balance would not have been reducing whilst the payment holiday was in place. This meant that, if nothing else were to change, the mortgage balance wouldn't be repaid in line with the original agreed term.

In order to address this, lenders were required to engage with borrowers about their circumstances at the end of the deferral period to agree a way for the increased balance to be repaid. So, when thinking about how that guidance applies to Mr S's mortgage, I don't think Barclays should necessarily have agreed to switch on the rebalancing feature at the end of the deferral period.

I can see from what he's told us that Mr S wants the MCA rebalancing feature reinstated. Mr S has explained that he is aware the MCA reserve has to be settled in full when the mortgage is repaid. However, Mr S says that, without the periodic increase in the MCA credit limit, he will need to find additional funds to cover the monthly interest charged on the MCA, more than £600 per month.

From this I understand that Mr S wants to use the MCA to pay interest on the MCA reserve, which is simply using the debt to fund itself. I'm not persuaded that this is a reasonable use of the MCA, or that Barclays would be acting responsibly if it were to allow this to continue. The account statements show that Mr S had not been paying the monthly interest towards the MCA, but instead waited for the reserve limit to increase, using this to service the MCA.

Barclays says that Mr S would have been sent a letter saying that the MCA was going to be capped. Barclays hasn't been able to provide a copy of this, and I'm not persuaded that such a letter was sent. If it had, Mr S would have been aware of the situation before September 2020, but I don't think that Barclays is required to do anything else to put things right.

I don't think Barclays fully explained the implications of withdrawing the MCA reserve to Mr S before the bank put this in place. As a result, it came as a shock to Mr S to

learn that the reserve was no longer available to him. I think that, for its poor communication, Barclays should pay Mr S compensation of £300 for distress and inconvenience. But I'm not ordering Barclays to reinstate the MCA reserve or to put any other redress in place.

### **Responses to the provisional decision**

Barclays accepted my provisional decision and agreed to pay compensation of £300 to Mr S.

Mr S didn't accept the provisional decision. He's annotated my provisional decision with his further points, but for simplicity, I will summarise the most relevant points he's made:

- his complaint about the interest rate is not that it is charged at Barclays' SVR; rather, he thinks that the way Barclays has calculated SVR since 2007 has changed and, as a result, is an unfair rate of interest;
- the rules introduced in 2014 only relate to Barclays' obligation to act responsibly for new lending, rather than existing mortgages;
- Barclays never expressed any concern about Mr S using the MCA as an income stream until he raised his complaint;
- if he'd known the rebalancing feature would be turned off he would never have taken any short-term assistance;
- a secret, underhand decision to withdraw the rebalancing on the MCA made by an unauthorised person who no longer works for Barclays should not be allowed to stand due to the implications for Mr S;
- the additional monthly interest he now has to find is more like £750 rather than £600 at the start of the investigation, but this is offset by the £1,600 monthly mortgage repayment and so is an actual net reduction in his borrowing each month;
- it would be irresponsible if Barclays didn't reverse the position to that prior to removing the rebalancing feature, so that Mr S can continue to use the MCA reserve to repay the accruing interest on the MCA, which is not prohibited by Barclays;
- if Barclays doesn't reinstate rebalancing on the MCA, allowing Mr S to use the MCA reserve to pay the interest on the MCA, the consequences for him will be devastating.

### **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.

First of all, I am sorry to note that Mr S has recently been ill, and I hope he has now made a full recovery.

I've thought carefully about what Mr S has told us. Having done so, and after giving careful consideration to Mr S's further points, I am not minded to change my provisional decision. These are my reasons.

**Interest rate:** First, with regard to the interest rate applied to the MCA, Mr S has now clarified that his complaint about this is not that interest is charged at Barclays' SVR (as per the terms of the contract). Rather, his complaint is about how Barclays calculates and sets its SVR. Mr S believes Barclays might have changed the way it sets its SVR since 2007, and that this has resulted in unfairness to him.

However, this is a new issue which Mr S hasn't previously raised with us or with Barclays, and so I can't consider it as part of this complaint. If Mr S wants to complain about how

Barclays sets its SVR he'll need to raise this issue first with Barclays. If Mr S isn't happy with the bank's response, he'll be able to raise a fresh complaint with us about this issue.

In relation to the interest rate complaint which Mr S raised with Barclays on 26 April 2021 (and which he referred to us in this current complaint), Mr S says that he believes the interest rate on the MCA should be the same as the interest rate as the main mortgage.

I've looked at the documentation Mr S has sent us. The document explaining how the MCA works (which Mr S has labelled Doc A) says in the fourth line "*The money you spend is paid back at our standard variable rate...*". I'm satisfied there is no ambiguity about this.

Mr S also claims that there is no mention of the interest rate applied to the MCA on the annual mortgage statements. The annual mortgage statements say:

*"Important information*

*Extra borrowing drawn down from the Mortgage Current Account Reserve is charged at Barclays' standard variable rate ...".*

Given this, I'm satisfied that Barclays made Mr S aware in 2003, and repeatedly thereafter, that the interest rate applied to the MCA was the bank's SVR. I'm not persuaded that Barclays led Mr S to believe that the interest rate on the MCA would be the same as the rate applied to the mortgage. Mr S does not have an offset mortgage, which is the only type of Barclays mortgage where the interest rate on the MCA is the same as the mortgage interest rate.

I'm not upholding this part of the complaint.

**Capping of the MCA:** I accept that it is not a contractual term that the MCA can't be used to make the monthly mortgage payment. However, Barclays' policy is that it will not allow the use of the MCA for various purposes, including gambling, purchasing stocks and shares, business purposes – or to make the monthly mortgage repayment. I'm satisfied Barclays is allowed to review the use of the MCA from time to time and decide whether or not the use of the account is within the terms and conditions and/or the bank's lending policies and risk appetite as a responsible lender. This would include reviewing whether using any increase in the MCA reserve to service interest on the MCA is appropriate or within the bank's duties as a responsible lender.

Mr S has provided a copy of the original terms and conditions he was given at the time the mortgage was taken out in 2003. These have been superseded by later terms and conditions from 2007. Those contractual terms state at clause 18.1 that the MCA is discretionary. Clauses 18.6 and 22.1 also state that Barclays may vary or withdraw the amount of the MCA reserve in certain circumstances, including (but not limited to) situations where the bank is required to comply with its obligations as a responsible lender. (These mirror the terms and conditions from 2003 which confirm the discretionary nature of the overdraft facility and the bank's right to withdraw it at any time.)

Mr S says that the FCA rules relating to responsible lending don't apply to his mortgage, only to new lending granted by the bank after 2014. However, Barclays has an ongoing duty to act responsibly and so I'm satisfied that the bank is allowed to review the use of the MCA, particularly if there are issues around affordability or use of the facility.

Barclays' documentation from the point of sale also makes it clear that, if the MCA is used, there must be a separate repayment plan in place to ensure that the mortgage (including the MCA) is repaid in full by the end of the term. Mr S has explained that his repayment strategy

for the MCA will be pension funds or most likely by downsizing and selling the property. Mr S wants the rebalancing to continue until then, with the MCA increasing by £2,000 with each £2,000 paid off the mortgage.

The rebalancing facility was turned off at the end of the payment holiday. As a result, Mr S no longer has access to further borrowing on the MCA. He queried this with Barclays and I can understand why Mr S was confused about what was happening, as the staff he spoke to weren't able to access the information he needed. Whilst trying to be helpful, it seems staff relied on assumptions about the MCA when they couldn't access the information on the bank's system, rather than giving Mr S the right information. I'm also satisfied that Barclays didn't let Mr S know at the time it happened that the rebalancing feature had been switched off.

Mr S says that, if he'd known this, he wouldn't have taken the payment holiday in April 2020. However, the rebalancing wasn't switched off until September 2020, after the payment holiday had come to an end. It was in September 2020 that Mr S told Barclays that he could afford to make the payments to the mortgage (which had increased, due to recalculation at the end of his payment holiday) but might struggle to pay the interest on the MCA. Mr S had also told Barclays that the household income had reduced and that he would not receive his annual bonus. Although Barclays offered additional help, Mr S didn't want this at the time. However, this triggered Barclays' decision to cap the MCA and switch off rebalancing.

It is correct that the staff member who switched off the rebalancing is no longer employed by Barclays. However, there is nothing in the documentation to persuade me that this decision was unauthorised or that there was anything untoward about this. I appreciate that when Mr S queried the position on the MCA with Barclays, the bank staff he spoke to had difficulty finding out the position on the system. This was at a time when many staff were working from home, with access only to the operating systems they needed, rather than being able to access information and systems in other areas of the business.

Mr S's position is that he needs access to increased borrowing on the MCA in order to pay the monthly interest that accrues on the MCA (which I believe is now about £171,000). Mr S anticipated when he discussed this with Barclays in October 2020 that, by the end of the mortgage term, the MCA would have increased by about another £38,000 if the account rebalanced by £2,000 every two months, taking into account the interest he'd repay. But I think Mr S's calculations at this point were incorrect.

With six years left to run on the mortgage (in October 2020), I think, given the nature of amortising loans (where the closer the term end, the more capital is repaid) Mr S's estimate that the MCA reserve would increase by £2,000 every second month is probably reasonable – so £12,000 per year. With six years left on the mortgage in September 2020, this would mean an increase in the MCA reserve of £72,000, not the £38,000 Mr S calculated. Paying off the interest alone on the MCA would not reduce the balance.

Over the mortgage term Mr S has used the MCA for other expenditure, rather than simply the servicing of overdraft interest. Given this, there is no guarantee that if rebalancing was to be reinstated and the reserve was to increase by £2,000 every two months, the full amount of the reserve would not be utilised. Mr S anticipates an increase in the value of his property by the end of the term and so might see less risk to his future plans to downsize, even if he used the MCA to its fullest extent. This would, however, increase the risk to the bank.

Mr S argues that, by using the MCA to pay off the interest each month (which he says is now about £750), but paying £1,600 towards the actual mortgage, he is making a net gain. This is

because (he says) his mortgage balance would be reducing, thus allowing him more funds in the MCA reserve to pay off the interest on the MCA.

But I'm not persuaded that it is in Mr S's best interests (nor does it make financial sense) to use increases in an overdraft facility to pay the interest accruing on that same overdraft, at the same time as the balance on the overdraft continues to increase every couple of months, resulting in more interest becoming due on that facility. It is, in effect, "robbing Peter to pay Paul", rather than making any actual debt reduction.

Therefore, in all the circumstances, I don't think it would be appropriate for Barclays to be ordered to reinstate the rebalancing facility. I disagree with Mr S that the FCA requirements for Barclays to act as a responsible lender don't apply to his mortgage or the MCA. Barclays is under a duty to ensure that customers do not borrow more than they are able to repay.

In this case, I think there are legitimate concerns about Mr S's management of his finances by effectively borrowing back repaid mortgage debt to service the overdraft interest – not just as a short-term measure, but as a long-term payment strategy. Given this, I don't think the bank has done anything wrong in declining to reinstate the rebalancing feature.

I'm glad Barclays has acknowledged that it could have done better in terms of customer service. The bank should have told Mr S that it was turning off the rebalancing feature, and he was put to some inconvenience trying to find out what had happened with this. But I don't think the decision itself was the wrong one, given the overall circumstances and the way Mr S had used – and was intending to continue to use – the facility. It was a decision Barclays was entitled to make, in line with the terms and conditions on the account.

I don't uphold this part of the complaint, other than in relation to customer service.

### **Putting things right**

I think for its poor customer service, Barclays should pay Mr S £300 compensation. This is for the inconvenience caused to him by not letting him know it was capping the overdraft facility, and for all the time he spent on the telephone trying to find out what was happening.

### **My final decision**

My final decision is that, in full and final settlement of this complaint, Barclays Bank UK PLC must pay Mr S £300 compensation for distress and inconvenience. I make no other order or award.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any correspondence about the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 1 February 2023.

Jan O'Leary  
**Ombudsman**