

## The complaint

Mr F's complaint about Barclays Bank UK PLC (Barclays) relates to his offset mortgage. He believes that it has not been correctly managed by Barclays and that he has paid more in monthly payments than he should. He feels that his mortgage account is completely offset by his linked accounts, and he should not be paying anything per month in respect of his mortgage.

## What happened

Mr F has had an offset mortgage with Barclays since 2019. The mortgage offer describes the loan as, *'a loan for a remortgage on Barclays' Offset Tracker BEBR +0.34% (.X4G) mortgage product'*, and Barclays have confirmed it is conducted on an interest only payment reducing offset basis.

The mortgage rate varies in accordance with changes to the Bank of England (BoE) base rate. Barclays calculate the monthly payments required from Mr F by taking one twelfth of the annual interest charged. This one twelfth amounts to 30.4 days, which is obtained by dividing the 365 days in the year by 12.

The offset benefit Mr F earns is calculated on a daily basis on the total credit balance in his linked accounts. That benefit is then applied to reduce any interest which is to be charged to his mortgage account in the following month.

Barclays have explained that when a person is fully offsetting their mortgage balance, then for those months with less than 30.4 days in them it will mean that a small mortgage payment will be required from the customer, since the linked accounts will only earn benefits over the 30 days in that month. Conversely, where there are 31 days in a calendar month the linked accounts will actually create a greater benefit than the sum required to pay the mortgage that month, since there are more than 30.4 days in those months. The additional benefit earned is applied to reduce the outstanding capital balance on the mortgage account.

Mr F believes that the offset mortgage has not been working properly since April 2022 and that he has been paying more in interest every month than he ought to. Barclays investigated the complaint and found that all Mr F's accounts had been correctly linked to his mortgage account and the offset benefits he earned correctly applied.

Barclays did however accept that it had taken too long to answer Mr F's complaint and so in recognition of that poor service, offered to pay him compensation of £200.

Mr F was unhappy with Barclays' final response and so approached this service. Our investigator thought that in relation to the offsetting issue, Barclays hadn't done anything wrong and had dealt with the complaint fairly. She did however think that Barclays had not clearly explained how the offsetting had worked and when taken together with the delay in replying to the complaint, thought the compensation should be £300. Mr F 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.

My summary of what happened is brief and I know the parties went into a lot more detail. I'm going to focus on what I think are the key issues. Our rules allow me to do this, and it reflects the nature of our service as an informal alternative to the courts. So, if there's something I've not mentioned, it isn't because I've ignored it, it's because I don't need to comment on every individual argument to be able to reach what I think is the right outcome.

I've taken account of both sides' views and I've looked at the issues raised and considered all the available evidence. Where evidence is not complete, I think about what is more likely to have happened in the light of the evidence which is available.

The starting point to this complaint must be to recognise that Mr F's mortgage tracks the BoE base rate. Naturally when the BoE base rate rises, Mr F's mortgage rate will rise, and that will change his contractual monthly repayments (CMP). Since April 2022, there have been rises in May, June, August, September, November, December of 2022, and also in February and March of this year. Consequently, the CMP has risen.

I do not think Mr F challenges the principle of how the offset should work – that being that the offset benefits earned on his linked accounts are set against the following months mortgage account interest. Hypothetically, it follows that if the BoE base rate didn't change, the days in each month equated exactly to one twelfth of a year, and Mr F maintained a balance in his linked accounts which generated an offset balance equal to his mortgage CMP, then he would not have anything to pay for that month. But that is not what has happened in Mr F's case.

There are two significant factors to this complaint. First there is the unequal number of days in the months of the year, meaning that for some months there are more than the 30.4 days, and for some there aren't. The effect of that has been explained to Mr F, but for the sake of completeness I can confirm that it produces this result; when there are less than 30.4 days in the month Mr F will have to make a small payment to his mortgage account because he won't have earned sufficient offset benefits in the 30 day period (or in the case of February 28 days), and when there are more than 30.4 days in the month he will earn a greater offset benefit than is required to offset the mortgage account for that month, and that additional sum will be applied to reduce the capital owed.

The second factor is that Mr F's mortgage rate has changed frequently due to the BoE base rate changes. When also allowing for the offset benefit being applied to the mortgage account the following month, rather than the same month as the offset benefit was earned, when it is applied, the CMP had risen creating a deficit for that month. And because of that, Mr F's direct debit was activated to take that sum.

Barclays has audited Mr F's account to ensure that it has functioned correctly, and they've provided their evidence to support this. Barclays has also confirmed that it carried out an investigation and concluded that the offsetting had been correctly applied.

My role is to assess the evidence which is before me and Barclays' evidence demonstrates, on the balance of probabilities, that there have been no errors in calculating the offset benefits and their application to the mortgage account. Having made that finding, I can't say Barclays have done anything wrong, and there has been no financial loss to Mr F.

I should add for the sake of clarity that The Financial Ombudsman Service doesn't provide an auditing service or carry out a forensic analysis of a customer's mortgage to identify any errors.

Barclays has accepted that it didn't get things right in terms of replying to Mr F's complaint and because of that it offered to pay £200 in compensation. Our investigator thought this should be increased by £100 to a total of £300 because she identified that Barclays had been unclear. I've given some further thought to whether £300 is a fair and reasonable sum.

### **Putting things right**

When this service considers what an appropriate level of compensation might be, we consider a variety of factors, including the trouble, upset, distress and inconvenience that may have been caused. We categorise awards and examples of these can be found on our website.

There are two potential categories of award I think are relevant to this complaint; the first 'An award .. of up to £300'. This is usually applicable when an error has caused frustration and annoyance more than you might reasonably expect from day-to-day life, and the impact has been more than just minimal. This is often where there have been repeated small errors, or a larger single mistake, requiring a reasonable effort to sort out – and the impact is usually one that has lasted a few days, or even weeks, causing either some distress, inconvenience, disappointment, or loss of expectation.

The second is 'An award...of up to £750'. This is usually applicable when the impact of a mistake has caused considerable distress, upset and worry – and/or significant inconvenience and disruption that needs a lot of extra effort to sort out. Typically, the impact lasts over many weeks or months, but it could also be fair to award in this range if a mistake has a serious short-term impact

Here Mr F has had poor service in terms of the time it took to respond to him and the clarity of the response, and it is that issue that I focus on. I do not consider the impact of the service failure to have been so great as to put this complaint into the second category. I think the first category is correct, and although our investigator places her view at the top end, I would agree that £300 is fair. I shall therefore direct that Barclays pay Mr F £300.

### **My final decision**

So, my final decision is that Barclays Bank UK PLC should pay Mr F £300 to settle this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 20 May 2023.

Jonathan Willis  
**Ombudsman**