

The complaint

Mr and Mrs M have complained that Barclays Bank UK PLC has failed to treat them fairly when providing redress on a previous issue with their mortgage.

What happened

Mr and Mrs M have an offset mortgage with Barclays which allows them to offset the interest accrued on the mortgage balance against the balance held in their offset mortgage current account. Mr and Mrs M complained previously that they didn't think this was working as it should with interest being applied to the mortgage when it shouldn't be.

Initially Barclays looked into the complaint and said it could see it would need to make manual adjustments to Mr and Mrs M's mortgage as it wasn't working as it should have been due to a wider system issue. It agreed to do this to make sure the mortgage balance correctly reflected what was outstanding and whether interest should be charged.

In 2022, Mr and Mrs M complained to Barclays about the payments and debits on their account as they didn't think these had been adjusted correctly.

Barclays provided a breakdown of back dated payments and the dates for which the back dating applied. It said the following had happened.

Transaction	Date B said backdate was done	Time period for offset back date	Lost offset benefit
A	16/07/2021	18/5/21- 16/07/21	£616.45
B	17/08/2021	17/07/21-16/08/21	£314.91
C	22/09/2021	17/08/21-22/09/2021	£373.36
D	23/05/2021	23/09/2021-10/11/2021	£489.47

In total it said £1794.19 offset benefit had been refunded and that this was corrected in 2021. But the response also said they couldn't see this had been refunded to the direct debit account so it would arrange for this to happen. It also said it would pay Mr and Mrs M £200 for the distress and inconvenience experienced as a result of the complaint.

When the refund was sent to Mr and Mrs M's mortgage current account, they noticed the outstanding balance on their mortgage increased by the same amount and they didn't think this was fair. They complained that Barclays was increasing the mortgage balance when it shouldn't be.

Our investigator looked at this complaint and initially said the complaint should be upheld. He couldn't see the refund had been credited to the mortgage account before being refunded to Mr and Mrs M's mortgage current account. So he thought the balance of the mortgage had increased unfairly. He didn't recommend Barclays increase the payment for distress and inconvenience as he felt this was in line with what this Service would award.

Barclays disagreed with the view and provided more information. It said it had previously adjusted the mortgage balance with interest credits made to reflect refunds on interest that shouldn't have been charged. When Mr and Mrs M wanted these back as a refund it

correctly debited it from the mortgage balance, with the balance increasing to reflect this.

Our investigator reviewed the new information and said he agreed Barclays hadn't done anything wrong based on this. He said he was satisfied that it had previously made the interest adjustments to the mortgage and the balance had been correct based on these. If Mr and Mrs M wanted to be refunded these amounts, it was correct that the balance of the mortgage increased to reflect these payments no longer being credited to it.

Mr and Mrs M disagreed. They didn't think it was fair Barclays was changing the goal posts with this new information. It had been the one that told them a refund was due and they disputed the figures provided and whether previous interest adjustments had been made as detailed.

I issued a provisional decision on this complaint in December 2023 and said the following:

I'm planning on upholding this complaint in part. I appreciate this may not be the exact answer that either side is hoping for, but I'll explain why I've reached this decision.

It is important to set out from the start that this Service is not an auditing service and to work through account statements and confirm what should and shouldn't be paid based on pounds and pence is not what we are here to do. Our role is to determine whether, based on the information available that we believe everything has happened as it should. And if it hasn't, what would be a fair and reasonable way to put things right.

It isn't disputed that for a period of time, Mr and Mrs M's offset mortgage account was not working as it should have and Barclays agreed it needed to do something to put things right. It is whether this has happened correctly which is in dispute now.

Barclays has said it previously made a number of adjustments. I've listed these as transactions A-D in the table above. Having looked at the statements for Mr and Mrs M's mortgage, I am not persuaded these interest adjustments to apply the lost offset benefit have been completed as Barclays has indicated and it isn't supported by the mortgage statements.

Transaction A

Barclays said a backdated adjustment was made on 16 July 2021 for £616.45 but this isn't supported by the account statements. This shows a credit was made on 16 July but for £300.17 so this was £316.28 lower than it should have been.

Transaction B

Barclays said it made a further backdated adjustment on 17 August 2021 for £314.91 but the statements don't show this was made at this point.

Transaction C

Barclays has told us when transaction B was missed, it made a further amendment to the account in September. Contrary to the detail for transaction C in the information provided in the final response, the backdated offset benefit applied here should have been £688.27 as this is what Barclays said should have been applied to reflect transaction B being applied late with transaction C. The statements don't support this payment was made as indicated. The mortgage account statement instead shows a credit to the account on 16 September 2021 for £386.23. This appears to be £302.04 lower than the amount Barclays say should have been credited back to the account.

Transaction D

This payment was not credited to the account in May 2021, but in May 2022. The statements for the account show a credit of £489.46 was made at this point with an additional penny being credited in July 2022, taking this credit to the indicated amount set out by Barclays.

Barclays said it had previously applied the credit adjustments so the mortgage should have been running with the correct balance showing. But from what I've seen as explained above, I don't think this was the case and the balance was higher as a result of interest being charged that should have been refunded because of the offset balance on the account.

I think Barclays failed to understand what has happened with Mr and Mrs M's account when looking back to see whether adjustments had been made as they expected. And I think it was wrong to say a refund would be made if the adjustments had already been made to the account. A refund should have only been made if the total balance on the mortgage was higher than it should be. And any refund should be applied against the mortgage, reducing the balance to where it should have been but for the error.

When Barclays refunded Mr and Mrs M what it thought they were owed in August 2022, it incorrectly paid money back to them from the mortgage, so they increased the mortgage balance. This was despite the fact that it had failed to reduce the balance of the account correctly previously when adjustments were not made for the offset mortgage as they should have been. And Mr and Mrs M have lost out as a result.

As I said at the start of this decision, this Service is not an auditing function and so I am not determining what interest should or shouldn't have been charged by Barclays. I think the figures it has provided to confirm what it feels should have been credited to the account look broadly correct based on the mortgage account terms and interest rate. So taking these figures as a starting point, I think the balance on Mr and Mrs M's mortgage was £618.32 higher than it should have been when Barclays failed to apply the backdated offset adjustments correctly.

I think Barclays incorrectly advised Mr and Mrs M that a refund was due and the total amount of this appears to be incorrect based on what had already been credited back to the mortgage as it attempted to correct the offset adjustments.

When it said a refund would be made, it should have set out the correct amount and explained to Mr and Mrs M that they had the option to either, have this amount refunded back to them – leaving the balance of the mortgage as it was, but crediting this amount back to Mr and Mrs M's mortgage current account. Or have the balance of the mortgage adjusted to reflect this refund and adjust any interest charged as a result.

To put things right, I think it is fair and reasonable for the following to happen.

Previous refund

I think Barclays made this refund in error, repaying money to Mr and Mrs M from their mortgage when they hadn't made an overpayment and hadn't asked for this to be paid. So when it was taken as a drawdown from the mortgage, it increased their mortgage balance when they didn't want this to happen.

Barclays should allow Mr and Mrs M to repay this refund and apply this back to the mortgage balance, taking it to where it should have been but for this error. It might be the offset benefit of the mortgage means there has been no impact with interest charged, but it should rework the mortgage from the date the payment was made to ensure Mr and Mrs M haven't paid more interest than they should have.

If Mr and Mrs M would prefer to keep the refund, it is correct the mortgage balance is increased to reflect this being paid out and they have the option to do this if they so wish.

Backdated offset benefits not credited

After the balance of the mortgage has been corrected to where it should be as the starting point, based on the previous refund being corrected as above. Barclays will need to adjust the balance on Mr and Mrs M's account to put them back in the position they would have been had the error not occurred.

Based on the information provided, I think the balance of the account should have been reduced by an additional £618.32 had the offset adjustments been made as they should have been. So Barclays will need to now credit this to the mortgage balance and adjust any interest to reflect this having taken place in August 2022.

If Mr and Mrs M would prefer these interest adjustments to be credited to their current account and not the mortgage account, they have the option to ask for this. This would mean the balance of the mortgage would remain as it is now and should not be affected if Mr and Mrs M choose this option.

Distress and inconvenience

This is an issue that has gone on for some time and I appreciate Barclays has attempted to resolve this at different points and previously paid Mr and Mrs M redress for the distress and inconvenience. But I don't think the £200 previously offered by Barclays for this most recent complaint and the impact of this is fair. I think the time and impact of this complaint on Mr and Mrs M with the stress added means this award should be increased to £350 as this is more reflective of what I think is fair and reasonable for the impact of this error.

Mr and Mrs M accepted the provisional decision and expressed a hope that this outcome would not be changed again as they looked to have the matter now fully resolved.

Barclays accepted the increase in the award for distress and inconvenience but maintained that it didn't think Mr and Mrs M were due a further refund or adjustment on their mortgage account. It feels everything has been applied as it should have been already. And any months where the refund was not paid was because it had highlighted the offset interest amount for that month as a refund when it had already been offset, so it didn't think a further refund was due.

The complaint has been passed back to me for consideration.

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.

I've taken on board the comments Barclays has made and its opinion on how the mortgage account has worked and the previous refunds or adjustments to interest it has made. But I am not persuaded it would be fair and reasonable to depart from my proposed outcome.

I've made the point a number of times this Service is not here to carry out an auditing function. But there will be times when determining complaints, that we need to understand whether, broadly speaking, everything has operated as it should have. In this case, Barclays initially said there had been an issue with Mr and Mrs M's account and the interest was not being offset as it should have been resulting in a refund being due of £1794.19.

Barclays highlighted this to them sometime after this first happened and explained the interest, added to the account in error could be refunded to them now. This was based on the total amount of interest charged to the account in error, according to Barclays assessment.

Mr and Mrs M's mortgage balance would have been attracting interest of just over and around £10 per day. Transactions A-D set out in the table included above cover a space of 176 days, so I am satisfied it is correct when Barclays has said the account should not have been charged £1794.19 worth of interest during this time had it been offset as it should have been.

However, I have not been persuaded that this was either not charged or if it was, that it was refunded during this period and I think the difference I set out above remains. And because of this, I don't think it would be fair to depart from the provisional decision I set out previously and Barclays will need to take steps to put things right now.

Putting things right

Barclays should follow the steps set out in my provisional decision, included above. In summary it will need to:

- A. Allow Mr and Mrs M to repay the £1794.14 it added to the mortgage debt when it incorrectly said a refund of this amount was due. This is bringing the account back to the position it would have been in but for this error. If Mr and Mrs M wish to keep these funds, the balance is correct and can stand, but there should be the option to repay this without penalty and Barclays should make sure they haven't lost out by paying more interest than they should have as a result of this.
- B. Once it is determined what will be done to complete step A above, I think Barclays needs to either reduce Mr and Mrs M's mortgage balance by £618.32 or allow them to have this paid to them as a refund – leaving the balance of the mortgage as it is.
- C. To recognise the distress and inconvenience of this situation, it should increase the compensation offered to £350. If it has already paid the £200 previously offered, this can be deducted from the total payment made.

My final decision

For the reasons I've explained above, I uphold Mr and Mrs M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mrs M to accept or reject my decision before 7 March 2024.

Thomas Brissenden
Ombudsman