

The complaint

Mr and Mrs F's complaint is about their offset mortgage with Barclays Bank UK PLC, which they took out in 2011. They believe that as Barclays has taken payments that have reduced the balance on the interest-only mortgage, the mortgage was mis-sold. This is because when they were sold their mortgage they were told there would be no need to make any payments if the mortgage was completely offset by their savings.

What happened

Mr and Mrs F took out their mortgage with Barclays in 2011. It was for just under £448,000 and over a term of 20 years on an interest-only basis. The interest on the mortgage was chargeable at a rate of 0.85% above Barclays Base Rate. The documentation from the time says that Mr and Mrs F did not request or receive advice from Barclays before applying for the mortgage. However, they have said they spoke to someone at a local branch and were told that as long as they had enough in their offset accounts, they wouldn't pay any interest.

The mortgage was set up on an offset basis. This is where the credit interest on savings balances on linked accounts is offset against the debit interest due to be paid on the mortgage.

The terms and conditions state:

'If you have chosen to apply any interest saved by offsetting to reduce the Monthly Payment, the interest saved will be applied to the Monthly Payment in the following month. This means that:

- (a) your first Monthly Payment will not take into account the offset (any interest saved in the first month will be applied to the second Monthly Payment); and*
- (b) each Monthly Payment (apart from your first Monthly Payment) will take into account interest saved by offsetting in the previous month.'*

The debit interest on the mortgage balance is calculated as one-twelfth of the amount of interest that would be charged on the mortgage over a year – effectively for 30.4 days. The credit interest is calculated on the savings based on the number of actual days of the month. This means that in five months of the year the credit interest is calculated over fewer days than the debit interest amount and a payment is required from the borrowers to cover the difference. These sums will usually be nominal.

In addition, payments may be required when interest rates rise. This is because the credit interest will be calculated based on the interest rate payable in the previous month, whereas the mortgage payment will be due at the same time calculated on the interest rate payable in the month going forward. As such, the debit interest can be charged at a higher rate than the credit interest was calculated at and the difference is payable by the borrower. However, if the mortgage remains fully offset for the whole of the month the debit interest is calculated over, the collected payment is credited back to the mortgage and reduces the mortgage balance.

Barclays has provided a copy of the current guide that is given to customers when they take out offset mortgages. This details how the savings interest and mortgage interest are compared on a monthly basis and that payments will be needed in some months. Barclays doesn't have a copy of the version that Mr and Mrs F would have been given. However, it is likely the content would have been similar, given that the way offsetting works has not changed.

Mr and Mrs F complained in April 2023 about the payments being taken from their account and then credited to the mortgage to reduce the balance.

Barclays responded to the complaint in a letter of 15 August 2023. It explained how the monthly mortgage payment and savings interest were calculated, which meant that in five months of the year the offset is calculated over fewer days than the interest calculation, and there is a shortfall which has to be paid. As such, Barclays was satisfied that it had administered the account correctly. However, as way of apology if how the account worked had not been fully explained and for the time it took to respond fully, Barclays paid Mr and Mrs F £200 compensation. Mr and Mrs F didn't accept this and brought their complaint to our Service.

One of our Investigators considered the complaint. He concluded that part of the complaint didn't fall within our jurisdiction as it had been made too late. This was Mr and Mrs F's concerns about the mortgage having been mis-sold and the payments that had been collected more than six years before they'd raised their complaint. In relation to the complaint about the payments collected in the six years before the complaint was made, the Investigator went on to consider the payments that had been taken. He concluded that Barclays had administered the mortgage as it should have and had not treated Mr and Mrs F unfairly.

Mr and Mrs F didn't accept the Investigator's conclusions in relation either to our jurisdiction or the merits of the part of the complaint that had been considered. They reiterated that based on what they were told at the time of the sale, they didn't consider Barclays should have collected any payments from them. As agreement couldn't be reached, it was decided the complaint would be referred to an Ombudsman.

What I've decided – and why

I issued a decision on 21 November 2024 that set out my conclusions regarding our jurisdiction as it related to what parts of the complaint we could consider. I concluded that we could only look at the payments Barclays had collected that were made in the six years before the complaint was raised – so since April 2017.

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 F are unhappy that Barclays has taken payments from their bank account. That situation arises because of the way an offset mortgage works. As I have explained above, the way an offset mortgage works means that the savings credit interest can and will be less than the payment required of Mr and Mrs F at least five times a year, if only by a small amount. However, if the interest rate rises, then the difference between those amounts can be more significant as the credit interest is calculated on the old interest rate, and the debit interest on the mortgage at the new higher rate.

I am satisfied that Barclays has done nothing wrong in taking the payments it has and it was done in line with the mortgage terms and conditions. That said, where it is evidenced at the end of the payment month that the offset account(s) had sufficient balance to have

completely offset the debit interest, Barclays credits the mortgage with the same amount as the payment that was collected. The payment is handled this way because if the interest collected was refunded to Mr and Mrs F it would show that insufficient interest had been paid and the mortgage would be classed as being in arrears.

Mr and Mrs F have said that Barclays has been unable to confirm the amounts of any future interest payments that will be collected. Barclays has confirmed in its literature that there will be a payment required five times a year. However, the collections that Mr and Mrs F are most unhappy about are not something that Barclays can tell them about in advance. As I have said above, Mr and Mrs F's mortgage is charged on a variable interest rate, and the larger payments they are most unhappy about will only happen if interest rates increase. That isn't something that Barclays can predict in advance as increases are down to market conditions and the decisions the Bank of England makes.

Overall, while I know that Mr and Mrs F won't be happy with my conclusions, I don't consider that Barclays has done anything wrong in administering their mortgage in line with its terms and conditions and its normal policies.

Barclays paid Mr and Mrs F £200 compensation for any omissions in the explanations they received about how the account worked and the delays in them receiving a response when the raised concerns. I consider this is a fair and reasonable sum in the circumstances.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs F to accept or reject my decision before 31 December 2024.

Derry Baxter
Ombudsman