

The complaint

Miss A complains that Barclays didn't calculate interest on her offset mortgage correctly. Miss A asks that Barclays apologises, evidences the interest she should have paid, refunds overpaid interest and pays interest on her savings account.

What happened

Miss A took out an offset mortgage with Barclays in 2016, via a broker. The mortgage is on an interest only basis with a variable rate of 1.99% over base rate. Miss A has a linked current account with a reserve facility – in effect a secured overdraft – and a linked savings account. Credit balances in the linked accounts can be offset against the mortgage interest.

Miss A says the way Barclays calculates interest does not reflect the terms set out in her mortgage offer. Her concerns are:

- interest was applied incorrectly when she withdrew an additional amount of about £450,000 in 2021, using the reserve facility. She repaid this a few weeks later. Miss A says interest was not applied at 1.99% over base rate.
- since then, the amount of interest applied to her mortgage each month fluctuates, even though the mortgage balance and her savings balance stay the same. When interest rates started to increase, Miss A deposited money into her linked savings account so that it exceeds the loan balance. She expected her monthly payments to be zero. However, this wasn't the case.
- Miss A says she wasn't told how the mortgage would work, which she says is different to offset mortgages offered by other lenders. Miss A says the mortgage offer didn't set out how the offset would work or say that she needed to read other information. Miss A says if she'd been given clear information she'd have taken out a mortgage with a different provider.

Miss A isn't satisfied with the explanations given by Barclays. Miss A says she's paid too much interest on her mortgage while forgoing interest on her savings account. She says working out what has happened has taken up too much of her time and she was belittled by Barclays staff when she raised a complaint.

Our investigator said Barclays hadn't made an error with the mortgage interest calculations.

Miss A didn't agree and asked that an ombudsman re-consider her complaint.

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.

Where the evidence is uncomplete or contradictory, I make a finding on the balance of probabilities – that is, what I think is most likely to have happened based on the available

evidence.

Miss A says Barclays applied an incorrect interest rate when she withdrew an additional amount of about £450,000 in 2021, using the reserve facility. I can see from the information Barclays provided that Miss A withdrew about £445,000 in June 2021 which she repaid in August 2021. Barclays applied a rate of 2.09% throughout that period. Barclays says its rate generally follows the Bank of England base rate, which at that point was 0.10%. I think Barclays applied a rate which was 1.99% above the base rate, in accordance with the terms of Miss A's mortgage.

Miss A says after this Barclays applied interest seemingly at random, despite the balances in the linked account being more than the mortgage balance.

In its final response Barclays said the offset benefit is calculated in arrears. That is, interest on the savings account for one month is applied against the interest due on the mortgage for the following month. That means there's a mismatch when interest rates go up or down, even if the balances of the mortgage and linked accounts remain the same.

Barclays also said contractual monthly payments (CMP) are calculated as one-twelfth of the annual interest (equivalent to about 30.4 days per month). This also creates a mis-match as interest on the linked accounts is calculated on the actual number of days in the month.

What this means is that when interest rates go up, the mortgage interest for the following month is likely to be more than the interest on the savings account. The opposite happens when interest rates go down. And even when interest rates don't change, the amount of interest on the linked accounts will be more or less than the mortgage interest for the following month, depending whether the month had 31 days (more interest), or 30 days or fewer (less interest).

I've looked at the information provided by Barclays about Miss A's mortgage, to see if it works the way Barclays described.

The interest rate applied to Miss A's mortgage increased on 1 May 2023. Interest accrued on her mortgage in May 2023 at 6.24%, totalling about £5,170. Interest had accrued on her savings at 5.99% in April 2023, totalling about £4,900. Miss A needed to make a payment of £275 to cover the difference. (All numbers in my decision have been rounded.)

By contrast, the interest rate fell on 1 April 2020. The interest accrued on Miss A's savings at 2.75% in March 2020 exceeded the amount of interest accrued on her mortgage in April 2020 at 2.09%.

Miss A says she was charged interest of £295 in March 2024, despite having funds in her linked accounts in excess of the mortgage balance. I think that's because February 2024 had 29 days – fewer than the 30.4 days used to calculate the mortgage interest. Miss A's savings accrued interest of £5,700 in February 2024, while the interest due on the mortgage was £5,990.

When the interest accrued on the linked accounts is less than the mortgage interest due that month, Barclays asks Miss A for a payment for the difference. Barclays says when the interest on the linked accounts is higher than the mortgage interest, the difference is used to reduce the mortgage balance. While I can't undertake a forensic examination of Miss A's mortgage, from what I've seen I think it's working as Barclays says it should.

Miss A says she's increased the amount in the linked accounts so that her savings exceed the mortgage balance. I understand why she's done this. However, Miss A might want to

check with Barclays whether amounts in the linked accounts in excess of the mortgage balance are included when calculating the offset benefit.

The other part of Miss A's complaint is that she wasn't told how Barclays calculates the offset benefit until she raised her complaint. Miss A says she wasn't told how it would work when she took the mortgage out in 2016, and she didn't ask as she assumed it worked in the same way as offset mortgages offered by other lenders.

Lenders are entitled to make commercial decisions about the terms of the products they offer. I don't know that Miss A is right to say that all offset mortgages (other than those offered by Barclays) work in the same way. Even if that is right, there's no obligation on Barclays to operate its mortgages in the same way as any other lenders.

Miss A referred to Barclays duties under the consumer duty. The consumer duty wasn't in force in 2016 and it doesn't apply retrospectively. However, Barclays did have to provide information that is clear, fair and not misleading.

Miss A says the mortgage offer issued in 2016 doesn't set out how the interest calculations and the offset benefit will work. She says while it might have been the responsibility of her broker to explain this to her, Barclays didn't provide clear information to the broker either.

I wouldn't expect Barclays to set out all of the mortgage terms – including details of its calculations of interest and the offset benefit – in the mortgage offer. The mortgage offer says by taking out the mortgage Miss A agreed to the terms set out in the offer and the mortgage terms and conditions. The offer also refers to product literature (in the section about porting).

Barclays can't provide evidence of the information given to Miss A or her broker in 2016. It says it doesn't know what information was available on its website at that time.

I think it's likely Miss A was given information in addition to the mortgage offer, since the mortgage offer refers to the mortgage terms and conditions and product literature. Given that Miss A's mortgage has always operated in the same way, it seems unlikely Barclays provided information to her that suggested it operated in a different way. Equally, I can't fairly find that it provided a clear and fair explanation about how the mortgage worked.

Miss A says she'd have taken out a mortgage with a different lender if she'd known how the Barclays' mortgage works. I don't think I can fairly find that she would certainly have done so, or that she'd now be better off.

It seems Miss A made an assumption about how the offset benefit would work. But if this was Miss A's main concern when she chose the mortgage, I'd reasonably expect her to tell her broker this and for the broker to obtain the necessary information from Barclays (if it hadn't been made available). I need to bear in mind that Miss A would likely have had several objectives when choosing a mortgage. It's possible that other mortgage terms – such as the interest rate, the amount available to borrow, the flexibility offered by the reserve facility or that the mortgage is interest only – might have made the Barclays' mortgage more attractive and/or less costly overall for Miss A than other mortgages available in 2016.

Complaint handling isn't itself a regulated activity. That means we can't always look into how a complaint was handled. While we can in some circumstances, if for instance the way the complaint was dealt with hindered the underlying problem being resolved, that's not the case here. I think Miss A's mortgage is working as Barclays says it should. And I think Barclays provided a reasonable explanation of this in its final response letter.

It follows that I don't think it's fair and reasonable to require Barclays to re-calculate Miss A's account, refund interest or take further steps regarding this complaint.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 14 March 2025.

Ruth Stevenson
Ombudsman