DRN-5627033

Financial Ombudsman Service

The complaint

Mr and Mrs F complain that Barclays Bank UK PLC increased the monthly payments on their mortgage even though interest rates had reduced.

What happened

Mr and Mrs F have an offset mortgage with Barclays, with around two years on the term left. They also have a linked mortgage current account (MCA). The interest rate on the mortgage is Bank of England base rate plus 0.75%, and the interest rate charged on any debit balance on the MCA is base rate plus 3.49%.

In August 2023, the Bank of England increased the base rate to 5.25%. Barclays wrote to Mr and Mrs F to tell them their interest rate had increased and their new monthly payment was £917.84. In November 2023, it told them that following a recalculation, the payment had increased to £961.25.

In August 2024 the Bank of England reduced the base rate from 5.25% to 5%, which meant the interest rates on the mortgage and MCA also reduced, to 5.75% and 8.49% respectively. Barclays wrote to Mr and Mrs F notifying them of the reduced interest rate on their mortgage. It told them that their new monthly payment was £1,296.57.

In November 2024, base rate reduced again, to 4.75%. Barclays wrote to Mr and Mrs F and told them their new monthly payment was now £1,403.67.

Mr and Mrs F complained. They said it couldn't be right that, when interest rates had reduced, their monthly payment had gone up. They said they hadn't budgeted for increased payments and had had to sell some investments to cover the difference. They said they had tried to get Barclays to explain why their payments had increased, but it hadn't given them a clear explanation. They understood that it was because Barclays was adding the debit interest on their MCA account to the mortgage balance – but it hadn't increased the payments to reflect that in the past; instead, it had extended the term of their mortgage and kept the payments the same to cover the debit interest. It shouldn't have changed the arrangement without their agreement.

Barclays said that Mr and Mrs F have an offset mortgage. It has two ways of managing offset accounts – "payment reducing" and "term reducing". It said Mr and Mrs F had the "term reducing" option in place. That means that any offset benefit from funds in credit in the linked offset accounts will not be used to reduce monthly payments – they will reduce interest charged on the mortgage, but the monthly payments will stay the same and the mortgage will therefore be repaid sooner.

However, Mr and Mrs F had a substantial debit balance on their MCA account and no funds in the offset savings account. Because they were only making payments to the mortgage and not the MCA, the interest charged on the MCA borrowing wasn't being repaid each month, it was being added to the mortgage balance. When the interest rate changed, and the monthly mortgage payment was recalculated, it was recalculated based on the increased balance due to the MCA interest, which is why the monthly payments increased. Barclays said that the payments were therefore correct. But it accepted it could have done a better job of explaining this and offered £350 compensation for the upset caused.

Mr and Mrs F weren't happy with that and brought their complaint to us. They said that in the past when MCA interest was added to the mortgage balance the term had been extended rather than the payments being increased. It was a breach of contract to change that arrangement without their consent and they wanted Barclays to go back to that way of managing their mortgage.

Our investigator said it looked like Barclays had changed Mr and Mrs F's mortgage to "payment reducing" without their consent. He said it shouldn't have done that – but it would ensure the mortgage was repaid by the end of the term, which was in their best interests. But he thought Barclays should pay them an extra £150 compensation, and discuss whether there was anything that could be done to assist them if the payments proved to be unaffordable.

Barclays didn't agree with that. It said that it hadn't changed the mortgage to "payment reducing". It said the mortgage was operating correctly on a "term reducing" basis, and the monthly payments were correct.

Mr and Mrs F didn't think the compensation was enough. They said the increased payments had had a significant impact on them – they had had to make lifestyle changes, and had to sell investments to afford the payments, which meant they would lose out on future growth.

I issued a provisional decision setting out my thoughts on the complaint. I said:

> "I've very carefully considered everything that has happened. I'm satisfied that Mr and Mrs F's mortgage is operating correctly, and that the monthly payments Barclays is asking them to make are correct. I don't therefore intend to uphold the complaint that it has operated the mortgage unfairly or incorrectly.
>
> But the reasons for this are relatively complex, and Barclays has not explained them clearly to Mr and Mrs F, leaving them in a position where they don't understand why their mortgage is operating in the way it should. To that extent, I intend to uphold this complaint.
>
> Mr and Mrs F have a repayment mortgage, with a linked MCA and offset savings accounts. There have been no funds in the savings accounts for some years and so Mr and Mrs F are not getting any benefit from the offset facility in the form of reduced interest.
>
> The reserve limit on Mr and Mrs F's MCA is about £155,000 and their borrowing on the MCA has been around that level for some years. Interest is charged on the outstanding borrowing but they're not making any payments into the MCA to cover that interest. If, in the absence of payments to cover the MCA interest each month, the interest was added to the existing balance, it would result in the MCA going over the facility limit – putting Mr and Mrs F in breach of the MCA agreement.
>
> If Barclays can't add the monthly MCA interest to the MCA (which would put it over the limit), and Mr and Mrs F aren't paying it, then the only remaining option is to add it to the main mortgage balance. This is explained on their regular offset statements, which say:
>
> > **MCA Debit Interest**

> MCA Debit Interest is payable where your MCA Reserve is, or has been, greater than the combined linked account balances that you're offsetting. For every month the MCA Reserve balance exceeds that of any linked balances, this will result in the MCA Debit Interest being added to the outstanding balance of your main mortgage. This could mean that:
>
> - If you have a **term reducing** arrangement, any MCA Debit Interest that is not covered by your total Contractual Monthly Payment will be added to the main mortgage balance. This means that you won't reduce your mortgage term while there is MCA Debit Interest payable and there may also be an outstanding balance to pay when your mortgage reaches its maturity date.
>
> - If you have a **payment reducing** arrangement there will be no payment reduction, as additional interest will be added to the main mortgage balance and your monthly payments will increase to cover this amount in full.

Mr and Mrs F say that Barclays has previously extended the term of their mortgage to cover the MCA debit interest, rather than increasing the monthly payments. But I don't think that's right. I've seen no evidence of the term being amended – Barclays has provided annual statements for the last several years, and they all show that the term ends in late 2026. Its records show that the mortgage was taken out in September 2001 over a 25 year term.

Both the mortgage and the MCA have interest rates linked to base rate. Because base rate was stable for many years, the interest rates hardly changed. But from 2022, there have been a series of changes – first increases, then reductions. Every time base rate changes, the mortgage and MCA interest rates change and Barclays re-calculates the monthly payments.

When Barclays re-calculates the monthly payments, it does so based on the mortgage balance on that day, at the interest rate on that day. Because this is a repayment mortgage, it calculates how much each monthly payment needs to be to repay the mortgage over the remaining term, based on the current interest rate and balance.

The balance used in the calculation includes MCA interest charged but not paid up to that date. But it doesn't include future MCA interest which hasn't been charged yet. Barclays doesn't assume that Mr and Mrs F won't make any reductions or payments to the MCA balance in future in calculating the monthly payments required. It only re-calculates based on the existing mortgage balance (including past, but not future, MCA interest).

Because Mr and Mrs F then don't make any payments to the MCA, MCA interest carries on being added to the balance. But because this wasn't factored into the monthly payment, by the time of the next recalculation the balance hasn't reduced by as much as it was projected to do. But there is now also less time left on the mortgage term. A higher balance than was expected has to be paid over a shorter period.

This explains why the monthly payments went up even when the interest rate went down – not because more interest was being charged, but because the balance was higher than projected at the last recalculation, based on the addition of further MCA interest in the meantime.

At the time of the September 2023 interest rate change, Mr and Mrs F's balance was £33,077 and there were around 3 years left on the mortgage. At an interest rate of 6.00%, that required a monthly payment of £917 to clear the then balance by the end of the term.

Interest on the balance of £33,077 was around £165 per month, with the rest of the monthly payment being used to reduce the capital. Based on that balance and monthly payment, therefore, by the time of the September 2024 rate change Mr and Mrs F's balance ought to have been around £23,000.

But in fact it was £32,868 – instead of reducing by around £10,000 over the year since the last change, the balance had reduced by less than £200. That was because MCA interest charged since the last recalculation had been added to the mortgage balance. The annual statement for this period shows that interest of around £900 per month – not £165 – was being added to the mortgage balance. The difference is the MCA interest which Mr and Mrs F weren't separately paying. The monthly payment set at the last re-calculation had resulted in capital payments of around £10,000 – but the MCA interest charged (but not paid) since then and added to the balance had all but wiped out the effect of those capital repayments.

Therefore, when Barclays came to re-calculate the monthly payment in August 2024, when the interest rate changed again, it was now doing so based on paying off a balance of £33,000 over two years – not £23,000 over two years, or £33,000 over three years.

That's why the monthly payment went up even though the interest rate went down. Essentially all the capital payments Mr and Mrs F had made over the past year reducing the mortgage balance had been offset by the MCA interest increasing the balance. This left them with less time to pay off much the same amount – hence the increased monthly payments, even at a reduced interest rate.

This has had a much bigger impact on Mr and Mrs F following the 2024 interest rate changes than it did at the time of the 2022 and 2023 changes. That's because the increases in 2022 and 2023 were close together, so there was less time for a build-up of MCA debit interest to be factored in since the last change; and it's also because there was more time remaining on the term, so the increased capital balance due to the MCA interest could be spread over more months.

This does not mean Mr and Mrs F's mortgage is on a "payment reducing" basis. It isn't. They briefly asked to switch to that basis in 2020 but then changed their minds. Their mortgage is on a "term reducing" basis.

I've quoted above the explanation of this from the offset statements. I can see why Mr and Mrs F believe they've been moved to a "payment reducing" basis, because the statement says that the monthly payments will be adjusted to take account of MCA debit interest, which is what has happened in their case.

However, that's on the assumption that the monthly payment doesn't change for other reasons (such as a change in interest rate). Whenever the interest rate changes, the monthly payment has to be re-calculated based on the new interest rate. And, because this is a repayment mortgage, every time the monthly payment is recalculated, it's done on the basis of paying off the full current balance (including past, but not future, MCA interest) by the end of the term.

If the interest rate never changed, and there was no recalculation of the monthly payment, then the MCA debit interest added to the balance would not be cleared, and would – as the statement says happens on a "term reducing" account – result in an unpaid balance at the end of the term.

Because this is a "term reducing" account Barclays hasn't regularly changed the monthly payment to take account of MCA debit interest, outside changes for other reasons. However, because this is a repayment mortgage, it has periodically – when the interest rate changes, or at the time of annual statements – re-calculated the monthly payment to make sure that the mortgage balance (not including future MCA debit interest) will be cleared by the end of the term.

I'm not persuaded this has caused Mr and Mrs F any detriment. If the MCA debit interest hadn't been included in their monthly payments now, it would still have been added to the mortgage balance, and Mr and Mrs F would have been charged compound interest on it until the end of the term. And they would have had to repay it at the end of the term in 2026. I appreciate they've had to cash in some investments to pay that amount off now. But if the monthly payments hadn't been changed, they would have had to find a way to repay it in 2026 – with additional interest – instead. But if Mr and Mrs F are in financial difficulty and struggling to make the monthly payments, they should discuss their situation with Barclays and it will need to treat them fairly, offering appropriate forbearance.

For all those reasons, I'm satisfied that Mr and Mrs F's mortgage is operating as it should. But I'm also satisfied Barclays hasn't clearly explained any of this to them. That means they've not understood how their mortgage is operating, and they have – understandably – been upset by the belief that they've been treated unfairly. It's not enough for Barclays to tell them that the payments are correct; it ought to have explained why it was making the changes it was, how their mortgage operated, and why the amount it was asking them to repay was correct. I don't think the explanation it did give was clear or helpful.

Barclays has already offered £350 compensation. But I don't think that goes far enough. I think £500 is more appropriate – so Barclays should increase the compensation to that amount. I don't require it to make any changes to Mr and Mrs F's mortgage. But if they are experiencing difficulties in making the new higher monthly payments, it will need to work with them and offer appropriate forbearance."

In response, Mr and Mrs F said:

- While disappointed with my provisional decision, they now have a better understanding of the situation. But they would have preferred to have had a discussion with Barclays about how to repay the MCA interest. They have various investments maturing in late 2026, which they intend to use to repay the MCA balance, and it might have been better to defer paying the interest until then.

- This situation has also caused them mental as well as financial detriment.

- They did not ask Barclays to change to payment reducing in 2020. Barclays did it without being asked and Mr and Mrs F had to make a complaint to get it changed back.

- I said that the MCA was being charged interest at base rate plus 3.49% - that's not correct, it is being charged at the same rate as the main mortgage.

- They would like to discuss extending the term of the mortgage to help lower the monthly payments pending repayment of the MCA.

Barclays accepted my provisional 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.

Barclays' notes record that it was Mr and Mrs F who asked to change method in 2020, not Barclays. I accept that Mr and Mrs F have a different recollection. But I don't think that's something I need to make a finding about, as it's not material to the outcome of this complaint. The fact is that this mortgage is – and was, at the time of the payment changes in 2022 and 2023 – operating on a term reducing basis.

Mr and Mrs F are correct that the interest rate on their MCA is the same as the main mortgage (currently 5.25%). The higher rate I quoted in my provisional decision is the rate for MCAs on non-offset accounts, not offset mortgages like this one. I'm sorry for the confusion caused.

However, I don't think that impacts my provisional conclusions, and I remain of the same view as I set out in my provisional decision – Mr and Mrs F's mortgage is operating correctly, but Barclays didn't clearly explain that to Mr and Mrs F, even when they complained about it.

It wouldn't have been possible to defer payment of the MCA interest in the way Mr and Mrs F suggest, without it having an impact on the mortgage balance and monthly payments. MCA interest is added monthly. If Mr and Mrs F don't pay that interest, and it isn't added to the MCA debit balance (which it couldn't be, because doing so would take the MCA over the facility limit), then the only remaining option is to add it to the mortgage balance – which inevitably results in revised monthly payments being re-calculated to take account of the consequent increased balance.

Putting things right

I understand Mr and Mrs F are concerned about the impact this has on their monthly payments. The only way to avoid this – without making changes to the mortgage – is to pay the MCA interest as it is charged each month. But if Mr and Mrs F want to extend the mortgage term to reduce the payments instead, that's a discussion they'll need to have with Barclays. They could then complain to us if they're unhappy with the outcome of that discussion, but that's not something I can pre-empt here.

I've thought about the right level of compensation, given the impact of the confusion about their mortgage payments had on Mr and Mrs F. I'm satisfied that £500 is fair in all the circumstances – recognising that this went on for some time, and caused them much upset and worry, but also that in the end they were paying the right amount.

My final decision

My final decision is that Barclays Bank UK Plc should increase its offer of compensation to Mr and Mrs F to £500. It should pay them that sum, less any payments already made.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs F to accept or reject my decision before 15 July 2025.

Simon Pugh
Ombudsman