DRN-5780920

The complaint

Mr S complains that Barclays Bank UK PLC lent to him irresponsibly when it let him borrow money on his mortgage current account reserve facility.

What happened

In 2006, Mr S took out a mortgage with Barclays. The mortgage had a mortgage current account reserve (MCA) that gave him access to a reserve facility. It allowed Mr S to borrow money to an agreed limit. The limit increased as the main mortgage was repaid – what Barclays call the "rebalancing feature". The interest rate on the MCA was charged at Barclays' standard variable rate (SVR).

Mr S said that in 2015/16 Barclays told him that it was reducing the MCA limit because the balance of the MCA was above the main mortgage. But despite that Barclays continued to increase the MCA limit. Mr S said he has several serious health conditions – and one of the symptoms can be letting debt out of control. He continued to borrow more and the balance of the MCA is now more than he originally borrowed.

Mr S complains:

- Barclays told him that it was reducing the MCA in 2015. It should not have increased the MCA limit after that.
- Barclays should have recognised that he was in financial difficulty and stopped increasing the MCA limit. He now owes more on the MCA than he originally borrowed.
- The interest rate on the MCA is unfair.
- Barclays sent a letter saying the MCA had a zero balance.

I issued a jurisdiction decision setting out that I could only look at events from 29 August 2017.

The investigator did not think Barclays had treated Mr S fairly. She said that it should not have increased the MCA limit after 29 August 2017 when it was £30,750. So it should refund any interest applied on a balance over that amount, use that to reduce the capital balance of the MCA, reduce the MCA limit to £30,750 and ensure that no further interest is charged on any balance over that amount – and work with Mr S to agree an affordable repayment plan for the MCA.

The investigator thought that Barclays offer of £250 was sufficient to reflect the upset caused by telling Mr S the MCA balance was zero.

Barclays accepted what the investigator said. Mr S did not. He reiterated his position that we should not ignore the evidence from 2015, where Barclays said it was withdrawing the MCA facility.

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.

MCA limit

I issued a jurisdiction decision. I said that we could not consider events before 29 August 2017 because of our time limits. Mr S's wife said that it was only when she took over managing his finances that she encouraged him to make a complaint and helped him submit it – and that he has been vulnerable for years.

I don't dispute what Mrs S has said. But I see no reason to change my decision on jurisdiction. The evidence we have is that Mr S continued to manage his finances including the MCA during the time in question and he was in contact with Barclays during that period, So it would be difficult for me to find that his circumstances prevented him from complying with our time limits.

I agree with Mr S that the 2015 evidence is relevant to the determination of this complaint. But as I explained in my jurisdiction decision I do not have the power to consider a complaint about events before 29 August 2017. So while that evidence is relevant, I can't make any award to reflect any loss before that date.

It is not in dispute that in 2015 Barclays told Mr S it was reducing his MCA facility to £7,000 and that he would need to make an application if he wanted to increase the limit. Despite that the rebalancing feature remained and the MCA limit increased. That should not have happened. Further, in view of what Barclays knew or ought to have known about Mr S's circumstances it was not fair for it to operate the MCA in the way it did. And it should have assessed if the increased limits were affordable.

If Barclays had not made any increases to the MCA limit after 29 August 2017 the limit would have been £30,750. So it would not be fair for Barclays to apply any interest or fees to any balance over that limit. To put things right it should refund any interest and fees that Mr S has paid on the MCA on a balance over £30,750. And it should take steps to make sure that no further interest or fees are applied to any balance over that amount. Usually, I would not tell a lender to write off any of the capital balance as the borrower has had the benefit of those funds.

Barclays agreed to that. But it said that its systems prevented it from applying a zero interest rate. I also pointed out Mr S's ongoing vulnerability and asked if there was anything more it could do to help.

Barclays has made a counter offer. It has agreed to refund any interest and fees applied to the MCA balance over £30,750 and to reduce the balance accordingly. It should do that up to date of settlement, should Mr S accept this decision.

Barclays said it would then calculate the total compound interest that Mr S would pay to the reduced balance over the remaining term of the mortgage based on the current interest rate. It would then reduce the balance of the MCA by that amount.

I am satisfied that Barclays' offer would put Mr S in a better position overall than our usual approach. It will reduce the capital balance of the mortgage and the total amount Mr S will have to pay compared to just not applying any interest to any amount over £30,750. So I think it is fair offer and Barclays should honour it. I understand that Barclays will continue to apply interest to the reduced capital balance. That will still put Mr S in a better position overall. But if interest rates were to rise significantly then there is a possibility that Mr S could be left in a worse position.

I don't want to cause Mr S any undue worry. I can't predict what will happen to interest rates in future. But current expectations are that interest rates would not rise to such an extent that Mr S would be any worse off. Nevertheless, in addition to the steps set out below, Barclays should monitor the account and as a backstop it should make sure that if interest rates do rise significantly Mr S does not end up in a worse position than if no interest or fees were applied to the balance over £30,750 from 29 August 2017 until the end of the mortgage term.

Interest rate

That leaves the complaint about the interest rate applied to the MCA. I can only consider events from 29 August 2017. But I am satisfied that Barclays set out in a clear, fair and not misleading way the interest rate that would be applied to the MCA. For example, the 2011 rate switch offer said:

The interest rate charged on the Mortgage Current Account Reserve will be at our Woolwich Standard Variable Rate. This rate tracks the Bank of England Base Rate plus 4.49%, currently 4.99%.

I can't see any evidence that Mr S was subsequently led to believe that he would be charged the same interest rate on the MCA limit as the main mortgage. And I consider that Barclays was entitled to apply the interest rate if has to the MCA.

My final decision

My final decision is that Barclays Bank UK PLC should:

1. Refund any interest and fees applied where the balance of the MCA was over £30,750 to date of settlement.

2. Calculate the compound interest that would be applied over the remaining term of the mortgage to the reduced balance produced in 1 using the interest rate that applied to the MCA.

3. Reduce the balance of the MCA by the amount in 2.

4. Pay Mr S £500

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 25 September 2025.

Ken Rose
Ombudsman