

The complaint

Mr P and Ms O have complained about how Barclays Bank UK PLC has treated extra payments they made to their mortgage and say that there has been long standing ambiguity in Barclays' communication about them.

What happened

Mr P and Ms O took out their mortgage with Barclays in 2018. In January 2025 they received a mortgage offer for a new preferential interest rate product. That showed their outstanding mortgage balance was around £236,700 with a remaining term of around 23 and a half years. In section 6 it said Mr P and Ms O had an overpayment balance of around £56,400 and explained *"Any funds held in your overpayment balance means you pay less interest as they help reduce the total amount you borrow from us, but they're not taken into account when calculating your monthly payments."*

Mr P and Ms O raised a complaint about their overpayments. Barclays didn't uphold the complaint. It explained that the overpayments Mr P and Ms O had made had been taken into account when calculating the interest due so they'd paid less interest overall. It said the contractual monthly payment ("CMP") remained the same and instead the mortgage would be paid off early. It said the annual statements contain information about this, as does its website, and following Mr P and Ms O's request it had moved the overpayments so they were now a capital repayment, which meant the CMP would now reduce. It explained any extra payments that were less than three times the CMP would be treated as overpayments (and be used to reduce the term, rather than the CMP) unless Mr P and Ms O called and requested, each time, the CMP be reduced.

Our Investigator explained to Mr P and Ms O that the mortgage had run as it should, with the extra payments reducing the amount of interest charged irrespective of whether they were held in the overpayment fund or treated as formal capital repayments, with the only difference being a formal capital repayment would trigger a recalculation of the CMP.

Mr P and Ms O didn't accept our Investigator's findings saying that failing to deduct overpayments from the capital defeats the purpose of the overpayment facility. As an agreement couldn't be reached it was passed to me to decide.

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.

Although I've read and considered the whole file I'll keep my comments to what I think is relevant. If I don't comment on any specific point it's not because I've not considered it but because I don't think I need to comment on it in order to reach the right outcome.

I think there has been a misunderstanding on the part of Mr P and Ms O about what Barclays and our Investigator have said.

In their complaint form Mr P and Ms O said *“One would think that the purpose of making overpayments is to reduce the capital borrowed that would in turn reduce the amount of interest paid and reduce the duration of the mortgage.”* And *“...had the overpaid amounts been deducted at the time from the borrowed capital I would be paying a smaller monthly repayment and I would have less years remaining on my mortgage - Basic economics and math.”*

And that is exactly what has happened, albeit the language used has been slightly different.

Every overpayment Mr P and Ms O have made has been taken into account when the interest due has been calculated each day. So, had Mr P and Ms O not opted to use the overpayment fund to formally reduce the mortgage balance in January 2025 by moving the overpayment fund to being a capital repayment, then over the term of the mortgage they would have paid less interest and had less years remaining.

There are two separate processes when an extra payment is made. Which one is used is dependent on how much the extra payment is; the extra payment is treated either as an overpayment or as a capital repayment.

In both instances the amount of interest charged on the mortgage would reduce immediately in line with the new net debt. The differences being that with an overpayment the CMP remains the same and the mortgage will be repaid sooner, whereas with a capital repayment the CMP is recalculated and therefore the mortgage isn't repaid any sooner.

The terms of Mr P and Ms O's mortgage are that any extra payments will be treated as overpayments (and be available in the overpayment fund for future use for underpayments if required) unless they are of a value equal to or greater than three months payments. If an extra payment of at least three months payments is made, then it will be treated as a capital repayment and would trigger a recalculation of the CMP going forward.

When Mr P and Ms O took out this mortgage the offer dated 12 March 2018 explained that any overpayments will reduce the balance on which they pay interest immediately and can also be used to fund future underpayments. And that is why the overpayment fund is kept separately as that is an amount Mr P and Ms O could use at a later date if they wanted to underpay. But, as it explained, although it is kept separately, it is still taken into account when the interest is calculated.

The supplementary conditions explained when any extra payments would go into the overpayment fund and when they would be paid to the mortgage balance as a capital repayment:

“You may make overpayments for the Loan and we will add these to your Pre-Payment Balance. Overpayments made will reduce the balance on which you pay interest immediately. If you make overpayments which have a value equal to or greater than that of three Monthly Payments (e.g. where your Monthly Payment is £500 and you make an overpayment of £2,000), these will be treated as a part repayment and will not be added to your Pre-Payment Balance.”

And how the overpayment fund could be used:

“The funds in the Pre-Payment Balance can only be used to fund future underpayments or to make a capital repayment. If you take an underpayment arrangement, the amount you owe and the interest that you pay, will increase immediately [...] If you want to use your Pre-Payment Balance to reduce your Monthly Payment or term set-out in your Offer by

making a capital repayment, you must notify us. A minimum capital repayment amount may apply.”

To illustrate how this works using an example; if a customer has a mortgage of £100,000 and they then made overpayments totalling £5,000 they would only be charged interest on the net balance of £95,000, but Barclays would set their CMP as if they still owed the full £100,000. The customer could use that £5,000 in one of three ways:

1. Leave it on the account as an overpayment. Their CMP would remain the same, so every month they would overpay a little more and that would have a cumulative effect. This option means the mortgage would be repaid sooner and, depending on the amounts in question, could knock a significant amount off the mortgage term.
2. Ask Barclays to move it to being a capital repayment (which is what Mr P and Ms O did in January 2025). That would formally reduce the mortgage balance to £95,000 and the CMP would be recalculated accordingly. Unless further overpayments were made, the mortgage wouldn't be paid off early as the customer is instead paying less each month with the reduced CMP.
3. Use the overpayment fund to make underpayments until it is all used up. The CMP would remain the same and the mortgage wouldn't be repaid any sooner.

If we use Mr P and Ms O's actual mortgage and look at the statement dated 11 October 2024, we can see how this has worked using October 2023 as an example.

On 1 October 2023 the mortgage balance was around £258,220 and the statement said that includes the overpayment fund balance of around £46,430. So had Mr P and Ms O not overpaid and therefore didn't have an overpayment fund balance (or if they'd used the entire amount to fund underpayments) then their mortgage balance would have been around £304,650 on that date.

Using a crude calculation, to work out the interest due based on Mr P and Ms O's actual mortgage (so that is, the balance of £258,220 which included the overpayment fund balance) that amount is multiplied by the interest rate (1.37%) divided by 365 days multiplied by 31 days in the month. That gives the monthly interest due at around £300, which is in line with what the statement shows Mr P and Ms O were charged (the less than £2 difference is due to when Mr P and Ms O paid in the month and the amount they paid).

If the overpayment fund hadn't been taken into account when the interest due was calculated then Mr P and Ms O would instead have been charged around £350 interest in October 2023; that is, £304,650 multiplied by 1.37% divided by 365 multiplied by 31.

That statement again explains *“Your overpayment balance reduces the amount of interest you're charged but doesn't reduce the outstanding mortgage balance which we calculate your contractual monthly payments on or change your remaining term.”*

And the leaflet enclosed with the statement goes into more detail about overpayments and how they work:

“An overpayment is any payment (other than a payment to cover any of our charges or costs) you make to us on top of your monthly payments and which is less than three times your monthly payment amount. If you make a payment equal to or greater than three times your monthly payment amount, we’ll treat this as a part redemption (see the ‘Capital repayments (part redemption)’ section.” And;

“...overpayments will reduce your mortgage balance (which we charge interest on) but won’t automatically change your contractual monthly payment amount. We’ll still apply the overpayment amount to reduce the balance, which will also reduce the interest charged. You can choose to reduce your monthly payments by asking us to apply the money as a capital repayment (or part redemption) and to recalculate your monthly payment.”

And in the section “Capital repayments (part redemption) it explains that is:

“A lump sum payment to reduce your mortgage balance that’s equal to or greater than three times your contractual monthly payment. You might need to pay an early repayment charge (see your offer for details). We’ll adjust your contractual monthly payment amount to take any capital repayments into account.”

Mr P and Ms O’s mortgage has run as it should, with their extra payments being treated as overpayments and therefore being used to reduce the interest they are charged. And as their CMP remained the same their mortgage would have been paid off sooner. Then, in January 2025, when they asked those be converted to a capital repayment that was done and their CMP was recalculated.

If Mr P and Ms O continue to make extra payments of less than three times the CMP then those will go into the overpayment fund. Once in there those extra payments will mean less interest is charged (as the net balance will be lower), the CMP will remain the same, and therefore the mortgage will be repaid sooner. If Mr P and Ms O want their CMP to be recalculated they will need to either make an extra payment of at least three times the CMP (in one payment) or phone Barclays to request their overpayments be converted to a capital repayment as they did in January 2025.

It’s not the role of the Financial Ombudsman Service to provide an auditing service or carry out a forensic analysis of mortgage accounts. But based on what both sides have said and provided it seems Mr P and Ms O’s mortgage has run as it should have done, with less interest charged due to the extra payments made. Of course, it’s open to Mr P and Ms O to instruct an independent suitably qualified professional to audit their account. But that would have to be at their expense. But as things stand, I’m not persuaded that Barclays has mismanaged their account, or that the outstanding balance is incorrect.

My final decision

I don’t uphold this complaint. Under the rules of the Financial Ombudsman Service, I’m required to ask Mr P and Ms O to accept or reject my decision before 16 March 2026.

Julia Meadows
Ombudsman