

The complaint

Mr and Mrs M complain that Barclays Bank UK PLC took increased interest payments for their offset mortgage despite the balance being fully offset by their savings. They say it hasn't explained this.

Mr and Mrs M ask that we investigate all calculations over the mortgage term.

What happened

Mr and Mrs M have an offset mortgage with Barclays. Mr M says the balance is fully offset by their savings. Despite this, Barclays took increased interest payments in late 2022.

Our investigator said the payments taken by Barclays were correct. He said this is because the offset benefit is calculated in arrears. So interest payments are required when the interest rate applied to the mortgage account increases (as was the case with Mr and Mrs M's account in late 2022).

Mr and Mrs M didn't agree. Mr M said it doesn't matter what the interest rate is if the balance is fully offset. He asked that an ombudsman re-consider the 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.

I should first explain that we don't have the capacity to re-calculate mortgage accounts. I wouldn't consider it reasonable to require Barclays to recalculate Mr and Mrs M payments over the mortgage term unless I thought there had been an error. I don't think that was the case here.

Barclays sent statements to Mr and Mrs M setting out the mortgage balance and the balances in the linked accounts. Mr and Mrs M haven't said they disagree with these statements. The mortgage balance was slightly higher than the balances in the linked accounts (by about £250). So the mortgage was almost fully offset.

Mr and Mrs M don't understand why their monthly payment increased in late 2022, despite their mortgage balance being offset. They said they'd been paying about £145 each month. This increased to about £260 in November 2022 and about £835 in December 2022.

In its response to Mr and Mrs M's complaint, Barclays said there were two reasons for this, both of which relate to how the offset benefit is calculated and applied to the account.

The offset benefit is calculated on a daily basis over each month and applied to the contractual monthly payment (CMP) due in the following month. For instance, the offset benefit for September is applied against the payment due in October. This is because Mr and Mrs M are entitled to withdraw money from their linked accounts. Barclays can only calculate the total offset benefit at the end of the month.

If there's an interest rate change, this will create a mismatch between the CMP and the offset benefit. For instance, if the interest rate applied to the mortgage in October 2022 was higher than it was in September 2022, the offset benefit accrued in September 2022 would be less than the interest accrued in October 2022.

There's a further potential mismatch with the way that the CMP and the offset benefit are calculated. The CMP is the same each month (unless interest rates change). The offset benefit is calculated on a daily basis. This means the offset benefit is less in months that have 30 days or fewer, and more in months with 31 days.

There was an additional factor here, in that Mr and Mrs M had taken out an interest rate product which expired on 30 November 2022. After this, a variable rate applied which was higher than their product rate. And there were interest rate increases after this.

I've considered how all this affected Mr and Mrs M's account in late 2022.

Barclays wrote to Mr and Mrs M on 30 November 2022 saying their CMP due in December 2022 had increased to £2,143. This was because their interest rate product had ended and the interest rate which applied to their account from 1 December 2022 was higher

As explained above, the offset benefit that was applied to the CMP due in December 2022 was accrued in November 2022.

Mr and Mrs M's offset benefit accrued in November 2022 at the lower interest rate that then applied, for 30 days, and on a balance that was slightly lower than the mortgage balance. The statement sent to Mr and Mrs M on 1 December 2022 set out the offset benefit accrued in November 2022. It said the total interest saved was £1,307.

When the offset benefit (£1,307) was applied to the CMP due in December 2022 (£2,143) it reduced the payment due to £836.

Having reviewed the statements and letters sent to Mr and Mrs M, I think their mortgage account worked as Barclays said it should. I can't see that Barclays made an error with the payment it said was due in December 2022.

I've also looked at the statement sent to Mr and Mrs M on 1 January 2023 which set out the offset benefit accrued in December 2022, when the higher interest rate applied. The total interest saved was £2,063 – which would have been offset against the payment due in January 2023. Again, it looks to me that this was calculated as Barclays said it should be.

If interest rates had fallen, the opposite would have happened. The amount of the offset benefit would have been more than the interest accrued in the following month.

Mr M wasn't happy with the explanations given to him when he called Barclays. There were several things which led to the higher payment in December 2022 and I can appreciate that it would have been difficult to explain this on a phone call. And he says the call handler couldn't always identify the accounts linked to the mortgage. However, I think the account worked as it should. And Barclays' final response letter did explain the reasons for the payments increasing. So, while I understand Mr and Mrs M's frustration, I don't think it's fair and reasonable to require Barclay to take further action.

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 Mrs M and Mr M to accept or reject my decision before 9 November 2023.

Ruth Stevenson
Ombudsman