

The complaint

Mr and Mrs S complain that Barclays Bank UK PLC has overcharged them interest on their offset mortgage.

What happened

Mr and Mrs S took out their offset interest-only mortgage with The Woolwich, which is a trading name of Barclays, in 2009. They borrowed just over £160,000 over a 25-year term, on a variable interest rate of 2.47% above Barclays' base rate for the life of the mortgage.

Mr and Mrs S have made overpayments to the mortgage over the years, and by September 2022 those overpayments amounted to just under £16,000. Mr and Mrs S say these overpayments should have been deducted from the mortgage balance as and when they were made, and Barclays hasn't done that.

They also kept between £75,000 and £85,000 in the offset savings account which was linked to the mortgage. In July 2020, they were able to increase that amount, so that their savings balance exceeded their mortgage balance. Mr and Mrs S expected that this would mean they wouldn't be charged any interest on the mortgage, and they say this is how they were told their offset mortgage would operate when they took it out.

Mr and Mrs S have, however, had to make some interest payments. They queried this with Barclays, but say they were never given a clear answer. They became increasingly concerned as the interest Barclays was charging on the mortgage was increasing, and in May 2022 they complained.

Barclays confirmed that Mr and Mrs S's mortgage was 100% offset, and explained why this didn't always mean that no interest was payable every month. It also said that it had applied Mr and Mrs S's overpayments to reduce the mortgage term, but it had instead now capitalised them so that the term isn't affected – but that the payments had in any case reduced the mortgage balance and interest payable.

Mr and Mrs S referred their complaint to the Financial Ombudsman Service. Our Investigator didn't think they had been overcharged, so he didn't recommend that the complaint be upheld. He found that differences in the number of calendar days in some months and interest rate changes meant that Mr and Mrs S had to make an interest payment in some months, even when their savings fully offset their mortgage.

Mr and Mrs S didn't accept that conclusion and asked for it to be reviewed. They said they were never told that they would have to pay any interest if their mortgage was fully offset. Had they known, they would have carried on with a repayment mortgage instead, and they might have chosen to repay the mortgage and have no interest liability at all.

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 calculates interest on a daily basis. However, it calculates the monthly mortgage payment on the basis of 30.4 days or 1/12 of a year. This means (unless the balance or interest rate change) the same payment is due each month, even though the number of days in calendar months varies. However, this also means that there is sometimes a mis-match between the interest earned on the balance in the offset account and the mortgage payment that is due, despite the customer's savings being the same as or exceeding the mortgage balance.

This is set out in Barclays' "Offset Mortgages Guide", which says that where the mortgage is 100% offset:

"in theory it would mean you pay no interest on your mortgage and receive no interest on your savings. In reality there would be slight anomalies. The monthly mortgage payment is calculated as 1/12th of the annual interest plus any capital repayment due (i.e. each 'month' is 30.4 days) whereas the Offset Benefit is based on the actual number of days in the calendar month. For example, the mortgage payment for March would be 30.4 days less the Offset Benefit earned during the 28 days of February and there would, therefore, be a small amount to pay."

This is why Mr and Mrs S have had to pay interest in some months but not others – and this has been particularly noticeable because of increases in the interest rate. Their mortgage is on a variable lifetime rate which tracks above Barclays' base rate. In practical terms, Barclays' base rate has been the same as Bank of England base rate, and so it has risen significantly since 2021.

In all the circumstances, given the way Barclays' offset mortgage works – and bearing in mind that the Financial Ombudsman Service isn't an auditing service – I don't find that Mr and Mrs S have been overcharged.

The Guide I've referred to above is the 2018 edition, and it's not clear whether Mr and Mrs S were provided with a similar document when they took out their offset mortgage in 2009. I note that the Mortgage Conditions for their mortgage do, however, say at condition 4.5 that each month will be calculated as a twelfth of the year for the purpose of payment of interest, although interest is calculated daily. This is in line with what the 2018 Guide says and in line with how Barclays has operated the mortgage.

I can understand why Mr and Mrs S understood they wouldn't need to make any payments once their mortgage was fully offset – particularly given that they took out the mortgage without taking advice – but I don't think I can fairly conclude that this is because Barclays misled them. I also think it unlikely that Mr and Mrs S would have made a different decision about their mortgage arrangements had they known earlier how their mortgage would work in practice once it was fully offset. They wanted flexibility and to keep their savings available in case they needed them, rather than use them to repay the mortgage, but also to benefit from those savings, and the offset arrangement has enabled them to do that. If they feel this mortgage is no longer suitable for them, they can of course repay it or look elsewhere.

Mr and Mrs S are also unhappy with how Barclays treated their mortgage overpayments. Barclays applied them to reduce the mortgage term, which is not what Mr and Mrs S wanted. It capitalised the overpayments instead following Mr and Mrs S's complaint in 2022, so that they didn't affect the term. The transaction history for the mortgage shows when each payment was credited to the mortgage for the purpose of calculating interest – irrespective of how the payments were treated in terms of reducing the term or the balance – and I find nothing to indicate that Mr and Mrs S were overcharged as a result. The way Barclays

treated the payments didn't mean they weren't applied to the mortgage as and when they were received for interest calculation purposes; on the contrary, I find that they were.

In all the circumstances, while I recognise that Mr and Mrs S are frustrated with how their mortgage has worked in practice, I don't find that they're due a refund or that Barclays has treated them unfairly.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 31 October 2023.

Janet Millington
Ombudsman