

The complaint

Mr W and Miss W have complained that Barclays Bank UK PLC have applied interest incorrectly to their new mortgage. They believe they have been charged too much.

Mr W and Miss W are being represented on this complaint, but I will refer to Mr W and Miss W throughout for ease.

What happened

Mr W and Miss W took out a mortgage with Barclays in September 2022. Funds were released to their solicitor for the house purchase on 16 September 2022. They received a letter from Barclays explaining what their new monthly payments would be and the letter also explained that £315.43 worth of interest was being charged for the period between 16 to 30 September 2022.

Mr W and Miss W said they had to then pay their full monthly payment on 16 October 2022, a month after the funds were released and then another full payment in November 2022. They think they have been charged too much interest.

Mr W and Miss W said they tried to contact Barclays a number of times to get an explanation but didn't get anywhere. They said the house purchase was very stressful and financially challenging and they didn't expect to have to pay this amount so early and they don't understand how the interest payments have been calculated. They are also unhappy that payments are being taken on the 1st of each month.

Barclays issued a final response letter on the matter and explained that the interest had been calculated correctly. Barclays also acknowledged that Mr W and Miss W spent a lot of time on the telephone trying to get through to Barclays, so they paid £175 to them as compensation for this.

Mr W and Miss W didn't agree with what Barclays has said so they brought their complaint to the Financial Ombudsman Service where it was looked at by one of our Investigators. After clarifying the information with Barclays a number of times, she was satisfied that the interest had been applied correctly and didn't think that Mr W and Miss W had been charged more than they should have been – so she didn't uphold the complaint.

Mr W and Miss W still disagreed. They said:

They would like it explained why exactly one month after the loan was received (16 September), on the 16 October 2022 they had to pay one month's full mortgage plus interest for September – then two weeks later on the 1 November they had to pay another monthly payment.

They said September's interest was charged at £315.43 and was paid on 16 October 2022. Then there is interest added for October of £650.99 for 31 days but this is paid on 16 October when a full monthly payment has been made. Then November's interest of £627.21 for 30 days has been paid on 1 November when they make another full monthly payment.

Mr W and Miss W said that if you work this out in reverse, the payment on the 1 December is for November's interest, the November payment covers October's interest, so they are not sure what the payment on 16th October covers.

The extra amount they paid of £315.43 is paid on 16 October which covers the September interest, but October interest was paid on 1 November, so they don't know what period the interest from the 16 October covers.

As Mr W and Miss W didn't agree with the Investigator, they asked for the complaint to be reviewed by an ombudsman, so it has been 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.

Having looked at everything, I agree with our Investigator that the interest has been applied correctly. I hope that my explanation below will provide clarity for Mr W and Miss W.

I've taken a look at the terms and conditions of the mortgage which says:

'How do we calculate interest'

'We can calculate interest on what you owe us on a yearly, monthly or daily basis. We refer to this as the 'interest period'. The interest period which applies to your loan is set out in your offer letter. If it isn't, we will calculate your interest on a daily basis'.

The mortgage offer under section 6 – amount of each instalment says:

'Your first payment will include interest due from the date of completion to the end of that month which will be added to your normal monthly payment in the following month'.

The interest charged between 16 and 30 September 2022 (£315.43) is daily interest which has been charged from the date the funds were released. A full monthly mortgage payment wasn't required in this month, however, because the funds were released, interest gets charged daily until the end of that month. This payment is then added to the contractual monthly payment of £1,197.15 so the payment due on 16 October 2022 was £1,512.58.

I have looked at the screen shots that have been provided by Barclays which shows that interest was added on 1 November 2022 for £650.99 which is for the month of October. Interest is then added on 1 December 2022 for £627.21 which is for November 2022.

The differing amount of interest is due to the fact that some months have more days than others, and interest is calculated daily. But the point that Mr W and Miss W make, is that they don't understand what the October payment covers, and they think they have been charged too much interest.

Barclays have provided us with details of how first payments are calculated, and they said that for all new mortgages, regardless of the date the loan completes, the first direct debit will always be taken on the 16th of the following month – which in this case – has resulted in the first payment being taken on 16 October 2022.

I think the confusion here is possibly that because the first month is taken on the 16 of October, it may seem to Mr W and Miss W that interest is worked out during that period every month – but that isn't the case.

The additional interest for September of £315.43 is just for the period from 16 to 30 September which was always going to be taken with the first monthly payment of £1,197.15.

Regardless of when the direct debit goes through, interest is always added at the start of each month for the month before. So the payment that was taken on 16 October only covered the full contractual monthly payment for October and the additional interest for September.

From what Barclays have said in their final response letter and from the transaction screen shots that we have, interest is added in arrears, but the contractual monthly payment is added in advance.

The November payment, albeit being two weeks later, covers November's full monthly payment from the first of the month which includes the interest for the entire month of October – as this hasn't been charged yet. The monthly payment in December, covers the monthly payment required for December along with interest in November – for the full month – and so on.

This is how mortgage interest is usually applied and it's not been calculated incorrectly. With the exception of that first month, interest is added at the start of each month for the month before – as has happened in this case.

I note that Mr W and Miss W didn't want their monthly payments to be taken on the 1st of each month and this is something that they can get amended with Barclays if they still wish to do so.

I hope that I've managed to explain this in a way that helps Mr W and Miss W understand how the interest has been applied. I haven't seen anything which shows me that they have been charged more interest than they needed to be.

As they are on a fixed rate, their contractual monthly payments will remain the same until the fixed rate expires, with interest being applied monthly as explained above.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Miss W to accept or reject my decision before 10 November 2023.

Maria Drury
Ombudsman