

The complaint

Mr and Mrs C complain about the way Barclays Bank UK PLC have applied interest to their offset mortgage account.

What happened

Mr and Mrs C took out an offset mortgage with Barclays which was drawn down on 3 March 2023. They borrowed £401,749, and subsequently deposited funds into their linked accounts. Barclays sent Mr and Mrs C a letter on 3 March explaining that their first payment due on 16 April would be £3,433.44, and subsequent payments would be £1,757.66.

Mr C complained to Barclays on 17 April. He was unhappy that he and Mrs C had been charged a full month's interest for March, and their savings had not been offset. Barclays explained that the first month is always payable on an offset mortgage as the interest benefits are credited in arrears, and the mortgage didn't exist in February to offset any balances in linked accounts.

Mr and Mrs C brought their complaint to our service. They said Barclays' terms and conditions were unfair and misleading and therefore shouldn't be relied upon. They didn't think it was fair for Barclays to hold their money on deposit but refuse to allow the funds to be offset against the mortgage interest.

Our Investigator looked into things and didn't think Barclays had treated Mr and Mrs C unfairly. Mr and Mrs C asked for their complaint to be referred to an Ombudsman. They felt the term Barclays was relying on to offset the interest in arrears was an unfair contract term. They said Barclays refuse to link any accounts until the mortgage has drawn down and so it's impossible to offset any funds in advance. They said Barclays are profiteering from holding the funds for the first month and not allowing them to be offset, which is not fair.

The complaint has now been passed to me to issue a decision.

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.

An offset mortgage account operates in such a way that any funds held by the borrowers in their linked savings or current accounts are offset against the mortgage balance – which means interest is only payable on the difference.

The terms of Mr and Mrs C's mortgage state that "*the 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.*" So that meant that as Mr and Mrs C's mortgage completed on 3 March, the first payment (which wasn't due until 16 April) would include the interest due from 3 March to 31 March, as well as the whole month of April. So I'm satisfied Mr and Mrs C's first mortgage payment was taken in line with the terms of the mortgage.

The mortgage terms also state “*a linked savings account must be taken out and maintained for the duration of this mortgage. This can be used to deposit credit balances, which can be offset against the mortgage interest. We calculate interest daily on the amount of your mortgage less the credit balance on your current and savings account(s) that are linked to your mortgage, which helps towards paying off your mortgage.*”

The statement Barclays sent Mr and Mrs C dated 1 April for the month of March showed a daily breakdown of the balances held in the mortgage account, and the offset accounts, and the monthly interest benefit saved as a result.

On page 3 of the statement, it reads: “**Linked accounts:** *This is the combined net balance of any current account(s) and savings account(s) that you have chosen to link to your offset mortgage. This amount is offset against your mortgage balance each day to provide the balance upon which interest is charged.*”

Having reviewed the statement, I'm satisfied that the offset benefit has been calculated daily, and so Mr and Mrs C have benefitted from interest savings as a result of the funds held in their Barclays accounts for the month of March. So I can't agree that Barclays have held the funds without passing on the benefits to Mr and Mrs C, or were 'profiteering', as Mr and Mrs C have suggested.

However, Mr and Mrs C's first monthly payment in April was for the amount of interest due on the mortgage balance for the months of March and April, without any reduction made for the interest saved from the credit funds. This is the source of Mr and Mrs C's frustration. Barclays have explained that the benefits are applied to the monthly payments a month in arrears. So the benefits Mr and Mrs C received in April were passed on in May. This meant May's payment was much lower.

The payment Mr and Mrs C made in April was effectively an overpayment. As the full amount was credited to the mortgage balance even though their savings had been offset against the mortgage. So the balance reduced more than it would have done if the savings interest had been offset. I've not been made aware of anything to suggest Mr and Mrs C were unable to make that higher payment, and they were made aware of it in advance. As a result, I'm not satisfied Mr and Mrs C have suffered a financial loss as a result of the way Barclays have administered the account.

Mr and Mrs C have said that the term Barclays have relied on to apply the credit interest to the mortgage payments is an unfair term. That is something that can only be decided by the courts. However, I have thought about what Mr and Mrs C have said and I don't think it's likely a court would find the term unfair. I say that because it was made clear to Mr and Mrs C in the mortgage offer and promotional literature how the payments would be determined. And as I've explained, I'm not persuaded this has resulted in any loss to Mr and Mrs C, as they've still received the benefits from the credit balances on a daily basis.

Barclays have to tell Mr and Mrs C what their monthly payment is going to be in advance, and at that point they do not know what credit balances Mr and Mrs C will hold in their other accounts for the duration of that month. So in principle Barclays cannot reduce the monthly payment by an unknown amount before the month has ended. So I think it's reasonable they credit the offset interest the following month after they know what that amount is. When Barclays told Mr and Mrs C what their first payment would be in April, they didn't know how much money Mr and Mrs C would transfer into the linked accounts, or how long they would hold the funds there for. So it wouldn't be reasonable to expect them to take account of the resulting interest savings in that first payment. The mortgage balance was still adjusted correctly despite the payment not being changed. As a result, whilst I appreciate it will come

as a disappointment to Mr and Mrs C, I'm not persuaded Barclays have treated them unfairly.

My final decision

Considering everything, for the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mrs C to accept or reject my decision before 5 March 2024.

Kathryn Billings
Ombudsman