

The complaint

Miss L and Mr S complain that the term on their mortgage with Nationwide Building Society hasn't reduced as they expected as a result of the regular overpayments they've made, and that Nationwide failed to explain to them how overpayments would affect the term.

What happened

Miss L and Mr S took out their mortgage with Nationwide in 2020. They borrowed £123,500 over a term of 17 years on a capital and interest repayment basis, at an fixed interest rate for the first five years of 1.64%.

Miss L and Mr S wanted to make overpayments to the mortgage in order to repay it sooner. They say they spoke to Nationwide about this a number of times, to make sure their overpayments were used to reduce the mortgage term. They paid an extra £200 each month, but in 2023 they realised that the term hadn't reduced as they expected. They made a complaint.

Nationwide said that overpayments of less than £500 don't automatically trigger a recalculation of the mortgage term. But it said Miss L's and Mr S's overpayments had reduced their mortgage balance straight away and had been applied correctly, and in February 2023 it carried out a term recalculation at their request.

Miss L and Mr S still thought something had gone wrong and they had lost out, so they asked the Financial Ombudsman Service to look into their complaint.

Our Investigator concluded that the mortgage was working as it should and the term had reduced to reflect Miss L's and Mr S's overpayments. He found that because Miss L and Mr S had overpaid by less than £500 each time they made an overpayment, the term wasn't recalculated automatically and this only happened when they requested it. The Investigator also thought Nationwide had explained this correctly to Miss L and Mr S; he didn't think it had misled them.

Miss L and Mr S didn't accept that. They said Nationwide should have told them about the £500 threshold for overpayments to reduce the term when they took the mortgage out, and when they had enquired since – but they didn't find out about this until after they complained. They also said Nationwide failed to explain things properly when they complained and this caused a huge amount of stress and anxiety. They have since been making monthly overpayments of £501 so that the term reduces automatically.

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 done so, I've come to the same conclusion as our Investigator, for the same reasons.

Nationwide gives its mortgage borrowers a choice about how any overpayments are treated: they can be used to reduce the mortgage term, to reduce the monthly mortgage payments, or to reduce neither the term nor the monthly payments and instead to build up as a reserve. In each case, however, overpayments are applied to the mortgage straight away in order to reduce the interest payable.

Miss L and Mr S chose to use their overpayments to reduce the term of their mortgage, because they're keen to pay it off as soon as possible. That is how their mortgage has operated since they took it out. But Nationwide has a threshold of £500 for the term to be amended automatically. So if Miss L and Mr S overpay by £500 or more, as I understand they're now doing, Nationwide will amend their mortgage term and write to them to confirm the new, shorter term. For overpayments of less than that, such as the £200 overpayments Miss L and Mr S had been making, this automatic recalculation doesn't happen and the term isn't changed unless either the borrower requests it – as Miss L and Mr S did in February 2023 – or another trigger point such as an interest rate change happens.

This doesn't mean, though, that Miss L and Mr S have lost out because the overpayments they made of less than £500 didn't reduce the term straight away. I'm satisfied that they haven't. Those overpayments were applied straight away to reduce the interest they're paying on the mortgage and to reduce the term when they requested a term recalculation. So they are in the same position overall as they would have been in had the term reduced automatically at the time of each overpayment.

Miss L and Mr S complain that Nationwide should have explained its policy to them when they took out the mortgage and since, when they made enquiries and in response to their complaint. I think it's clear that Nationwide told them they could choose for their overpayments to be used to reduce the mortgage term, and that's what's happened. I don't think it gave them wrong information or misled them, and the mortgage has ultimately operated as it should with no loss to Miss L and Mr S. So I don't find any basis on which I can fairly require Nationwide to compensate them.

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 Miss L and Mr S to accept or reject my decision before 11 April 2024.

Janet Millington
Ombudsman