

The complaint

Mr C and Miss R complain that Nationwide Building Society recommended a three-year fixed interest rate when a five-year fixed rate would have been more suitable for them.

What happened

In 2022, Nationwide gave Mr C and Miss R mortgage advice. It recommended that they should take a three-year fixed rate of 1.89%. They consider they should have been recommended a five-year fixed rate – and they questioned why the interest rate was higher on a five-year fixed rate than the three-year product.

Mr C and Miss R also said that Nationwide did not set up their home insurance policy correctly.

The investigator did not think the complaints about the interest rate should be upheld. She said that Nationwide's offer of £100 in respect of the insurance complaint was in line with the amount we would have awarded.

Mr C and Miss R did not accept what the investigator said. They made a number of points, including:

- They did not understand why the payment being under £950 was important – Nationwide knew they could afford to pay more.
- Nationwide had breached the Financial Conduct Authority's (FCA) high level principles. As a result, it had mis-sold them a mortgage that was not in their best interests.
- Having to remortgage earlier than they would have had they taken a five-year fixed rate is going to cost them over £20,000.
- The notes of the advice meeting set out that they wanted the stability of a five-year deal. They were "steered" toward the three-year deal. While the five-year deal was offered it was brushed over when they expressed dissatisfaction with the additional interest.
- The recommendation was wrong and put forward in such a way that acceptance was rushed.

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.

When deciding what is fair and reasonable in the circumstances of this complaint, I must take into account certain things. That includes the relevant rules and regulations. So I have taken into account the FCA's principles along with the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB). MCOB sets out the advising and selling standards for businesses giving consumers mortgage advice.

MCOB says that a firm should gather information about its customer's needs and circumstances and recommend a mortgage that is appropriate for their needs and circumstances, the facts disclosed by the customer and other relevant facts of which the firm is or should reasonably be aware of. So it was for Nationwide to gather information about Mr C and Miss R's needs and circumstances and to recommend a mortgage that was suitable for them.

In the phone call that Mr C and Miss R had with Nationwide they express a preference for a payment of around £950, on a repayment mortgage with a fixed rate. There was then a discussion about the difference in costs between a two, three and five-year fixed rate. The two-year was cheapest at 1.81%, the three-year second cheapest at 1.89% and the five-year the most expensive at 2.49%.

Mr C expressed dissatisfaction that the five-year fixed rate was almost 2.5%. He said that the additional interest was "*a lot of money*". Nationwide said, "*I don't think the five-year...was the best rate for you unless you need that stability for the next five years.*" Mr C replied, "*I think you are right.*"

Based on the information available to Nationwide it was reasonable for it to conclude that while Mr C and Miss R did have a preference for stability, whether it was three or five years was not the most important thing for them – and monthly cost was also an important factor.

In all the circumstances it was reasonable for Nationwide to recommend the three-year fixed rate. It met Mr C and Miss R's need for a fixed rate and stability, while balancing that against their preference to keep their costs down. While Mr C and Miss R might have been able to afford the higher payments, based on what they told Nationwide, it was reasonable for it to understand that the monthly cost was a significant factor for them

I consider it was fair and reasonable for Nationwide to recommend the three-year fixed rate as being suitable for Mr C and Miss R. It was not required to predict what might happen to interest rates in the future, but the recommendation was suitable for Mr C and Miss R's needs when the advice was given.

Nationwide sent Mr C and Miss R details of the mortgage it had recommended. So Mr C and Miss R had time to reflect on the mortgage they had been recommended before it began.

Nationwide has given us evidence that the five-year fixed rate it offered was more expensive than shorter term fixed rates at the time in question. The cost of different durations of fixed rates can depend on a number of factors, including market expectations about what might happen to interest rates in the future and how much it will cost the lender to fund the lending over the fixed period. I can't see that Nationwide acted unfairly in how it set the rates. There was no reason why it should charge the same interest rate for three and five-year fixed rates or have reduced the five-year fixed rate to accommodate Mr C and Miss R's wishes.

Nationwide has paid £100 to reflect the distress and inconvenience caused by failing to set up the insurance. I consider that is fair. So I don't consider Nationwide needs to do anything else to settle the complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Miss R to accept or reject my decision before 25 October 2024.

Ken Rose
Ombudsman