

The complaint

Mr and Mrs W complain about how Nationwide Building Society has treated their overpayments.

What happened

Mr and Mrs W have a mortgage with Nationwide and started making regular overpayments in 2013 as they understood it they would reduce the term by doing so. They recall conversations with Nationwide in 2018 and 2022 when they say they were told that the term was reducing. But in February 2024 when fixing their interest rate, they queried the overpayments as the term was unchanged and were told that the overpayments they were then making - as they were below a £500 threshold - weren't reducing the term but reducing the mortgage balance. Nationwide said that when Mr and Mrs W recently called they were given incorrect information about overpayments and in its letter of 25 April 2024 said that its policy was that overpayments of less than £500 per month results in the minimum monthly payments being reduced whereas overpayments of £500 could reduce the term if that was the customers expressed preference. As Mr and Mrs W were given incorrect information about how overpayments worked, Nationwide offered £350 as compensation.

Our investigator's view was that as the overpayment reserve appears on every annual statement and says that it was being used to reduce the mortgage balance it should have been clear to Mr and Mrs W that the overpayments were reducing the balance not the term. But Nationwide provided incorrect information about how the overpayments operated in January 2022 although this was corrected in March 2023. Our investigator recommended that the offer of settlement from Nationwide be accepted. Mr and Mrs W disagreed and asked for a review.

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.

Mr and Mrs W have been making regular overpayments since 2013 of less than £500 per month. This means that the overpayments have been used to reduce the mortgage balance which causes a reduction in the monthly payment when there is an interest rate change or mortgage product expiry. Mr and Mrs W would prefer that it resulted in reduction in the term of their mortgage and understood that would be the case although Nationwide say that a reduction in the mortgage term will only occur if the monthly overpayment exceeds £500 and the customer requests it.

Although Mr and Mrs W say that they understood that the overpayments were reducing the mortgage term, the annual mortgage statement is a record of what's happening with the mortgage each year and those statements give no indication that the overpayments are reducing the term. The remaining term is set out in those mortgage statements and does not show in all the years I have looked at any reduction in the mortgage term. Each year there is a reference to an overpayment reserve which is said to be "*how much you've overpaid on your mortgage and has already being taken off the mortgage balance*". I would have thought

that any reasonable reading of this and a review of the annual mortgage statement would have indicated that the overpayments were being used to reduce the mortgage balance and not the mortgage term.

But Mr and Mrs W say they were told that the mortgage term was reducing in January 2018 and again in 2022. On both occasions Mr and Mrs W say that in a phone call the Nationwide adviser told them that the term had been reduced as a result of the overpayments and the remaining term was shorter than appeared on the annual mortgage statement. In January 2018 Mr and Mrs W say they had a call with a Nationwide adviser as the remaining term on the annual statement of 11 years and six months didn't reflect any benefit of the overpayments. Mr and Mrs W say they were told that the term on the statement was incorrect and the remaining term as a result of the overpayments was nine years - a reduction of 30 months.

As Mr and Mrs W will know we haven't had access to the full call in 2018 to determine what was said but I do see later in the year on 5 October 2018 as confirmation of the borrow back facility Nationwide send out a letter saying that the remaining mortgage term was 10 years and 7 months which again would indicate that the overpayments weren't having an effect on shortening the mortgage term. The borrow back, resulted in an increase in the mortgage balance, an increase in the monthly payments but no change in the mortgage term which indicates that changes to the overpayment reserve whether by deposits or borrowings were having no effect on the mortgage term.

So, my view is that anyone reading the documentation including that issued after the phone call in 2018 should have known that the deposit or withdrawal of the overpayments wasn't affecting the mortgage term. I've listened to the call in 2022 when Mrs W asks whether the remaining term set out on the annual mortgage statement of 7 years and six months takes into account the overpayment or not? The adviser does a calculation tells her that if she continues to make the overpayments instead of the 7 years and six months that appears in the annual mortgage statement that the term will reduce to 6 years and eight months – a reduction of now only ten months. That was wrong because as the overpayments were less than £500 per month, they would not reduce the term but only the balance.

But If Mrs W is correct in her recollection that she was told 4 years earlier that the term had been reduced by 30 months, it's surprising that she doesn't challenge the Nationwide adviser in 2022 as to why, as they continued making overpayments in the 4 years since, the term 4 years later had only been reduced by 10 months. Surely, that would be the time to protest that she was told in 2018 that the term had been reduced by 30 months so why now the reduction to only 10 months? As Mrs W didn't do that and seemed content that the term would only be reduced by ten months and as there is documentary evidence from 2018 setting out that the term hadn't changed, I believe it's reasonable for me to conclude that Mrs W's recollection of the conversation in 2018 may be inaccurate given the passage of time.

But it's clear that In January 2022, Nationwide gave Mrs W incorrect information about how the overpayments affected the mortgage term which wasn't corrected until March 2023. The overpayments of less than £500 weren't reducing the mortgage term but reducing the mortgage balance which would have an effect on the monthly payment. Mr and Mrs W are entitled to compensation for their disappointment when they learned that the overpayments weren't working as they had been told they would in the conversation with the adviser in January 2022. Being told something by an adviser that gave them false hope of their mortgage being settled earlier and then finding that wasn't true must have been disappointing for Mr and Mrs W.

I consider that the sum offered of £350 is appropriate in accordance with our guidance as this was a large error by Nationwide that took a reasonable effort by Mr and Mrs W to sort

out. However, I can't fairly say that that Mr and Mrs W suffered any resulting financial loss. Mr and Mrs W say that if they had known the true situation and that they needed to make overpayments in £500 tranches instead of paying Nationwide monthly they would have diverted the money into a savings account and then made the £500 overpayment. But I consider that between January 2022 and Mach 2023 that they may well have been financially better off, given the differential between savings and mortgage rates at that time, by using the overpayment, as they did, to pay down the mortgage balance monthly and reduce the interest burden rather than save up the £500 and lose that benefit. So, I'm not convinced a further payment for financial loss would be due.

My final decision

Nationwide Building Society has made an offer to pay Mr and Mrs W £350 to settle this complaint which I consider fair and reasonable in the circumstances. My decision is that Nationwide Building Society should pay Mr and Mrs W £350.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W to accept or reject my decision before 13 January 2025.

Gerard McManus
Ombudsman