

The complaint

Mrs P complains that Nationwide Building Society gave her false hope that following a successful payment arrangement, her arrears could be capitalised. This turned out not to be the case and as a result Mrs P has suffered distress and financial impact.

What happened

Mrs P holds a residential mortgage with Nationwide. In late 2018 Mrs P's circumstances changed – she changed jobs due to health reasons. Arrears started to accrue on her account as a result.

Between December 2018 and March 2019 several calls took place between Mrs P and Nationwide to discuss the arrears. Mrs P's intention was to bring the account up to date and arrangements were put in place. These weren't met and by May 2019 Mrs P's account was in arrears of around £1,700.

In mid-May 2019 Nationwide carried out an affordability assessment to discuss a way forward. The option of capitalising the arrears was discussed. Nationwide said Mrs P would need to maintain her agreed payments for six months and then call back to discuss the possibility of capitalisation. Mrs P agreed to pay £460 per month for six months to reduce her arrears (contractual monthly payment plus an extra £17.93 per month).

Nationwide also recommended she speak to a debt charity organisation to help reduce the amount being paid towards non-priority debts, as some of her payments appeared to be higher than necessary. Nationwide thought these payments could be reduced, and she could be making more payments toward her mortgage. Mrs P said she didn't want to use a debt organisation and was comfortable she was paying the minimum amount to unsecured creditors.

Mrs P's payment arrangement ended in November 2019. All her payments were made as agreed, so she contacted Nationwide to discuss next steps. Mrs P said her income and expenditure remained the same. Nationwide said that based on her circumstances it couldn't capitalise the arrears.

Mrs P complained to Nationwide. She doesn't think it should have offered her the option to capitalise the arrears, to later decline it. She says Nationwide was aware of her circumstances in May 2019 at the time of setting up the payment arrangement.

Nationwide said that it followed its process by discussing the option of capitalisation. But it should've made it clearer that this isn't guaranteed, as criteria needs to be met and would depend on an application at the end of the six-month period. Nationwide said it referred Mrs P to StepChange to help reduce her non-priority debts. Her income and expenditure review suggested savings could be made, creating a surplus that would have helped clear her mortgage arrears within a few months. Mrs P didn't take this action.

Nationwide accepted it could have given clearer information and awarded £25 compensation for the distress and inconvenience caused. It also said feedback would be given to the advisor in question.

Dissatisfied with Nationwide's response, Mrs P brought her complaint to our service. Our investigator looked into things and thought Nationwide could've provided clearer information during the call with Mrs P in May 2019. But in line with its terms and conditions he didn't think it wrongly refused to capitalise the arrears. He originally thought the £25 paid by Nationwide compensated Mrs P for the distress and inconvenience caused. He later recommended that this be increased to £100.

Mrs P didn't accept our investigator's opinion. She feels Nationwide should honour the agreement on this occasion as a goodwill gesture.

Our investigator considered Mrs P's comments and explained why his view remained the same. Because an agreement hasn't been reached, the case 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.

Capitilisation means the arrears will be added to the main balance and included when calculating the new contractual monthly payments. The account will no longer show as being in arrears. The rules state that a lender should not agree to capitalise the arrears unless there are no other options realistically available to assist the customer.

Nationwide's policy is that capitilisation can be considered when a customer is unable to clear their arrears balance within a reasonable period of time, typically 18-24 months.

I need to decide what is fair and reasonable in the individual circumstances of a complaint. I note that although Nationwide might operate such a policy, it ought to consider every borrowers individual circumstance carefully and tailor a solution for them. In saying that I don't consider the decision it reached in this case was unfair. I will explain why.

The mortgage is a secured debt and should be paid before any unsecured debts. So, it's usually reasonable for a lender to look for a consumer to be making only nominal payments towards unsecured debts before it agrees a concession.

In May 2019 Mrs P's income and expenditure showed a surplus of around £860 after paying for essential expenses. From this, she was paying around £665 combined towards various credit and store card accounts with payments ranging between 4% and 10% towards her balances. As this is typically more than the average minimum requirement, I don't think it was unreasonable for Nationwide to think Mrs P may be overpaying on her non-priority debts.

Nationwide suggested Mrs P uses a debt organisation to work out a true picture of her finances. It thought a review could help free up a surplus that could be used to clear the arrears in a few months – this would avoid the need to capitalise the arrears, saving the balance and interest being spread over the remaining period of the mortgage.

Mrs P said she didn't want to use a debt organisation and was comfortable she was paying the minimum amount to unsecured creditors. She is entitled to make that choice and lenders

shouldn't refuse to engage with the consumer if they don't want to speak with a debt organisation, or don't want to follow their advice.

Six months later Mrs P said her circumstances remained the same and capitalisation was refused. Mrs P doesn't think Nationwide should have offered her the option to capitalise the arrears, to later decline it. She says Nationwide was aware of her circumstances in May 2019 at the time of setting up the payment arrangement – and I agree.

Based on Mrs P's circumstances I don't think it was unreasonable for Nationwide to refuse capitalisation. But I do think based on what it knew about Mrs P's circumstances at the time of setting up the payment arrangement it could have better managed her expectations.

I don't think it was unreasonable for Nationwide to suggest Mrs P reviews her finances, as it would be more beneficial in the long term to increase her monthly payments on her mortgage to clear the arrears sooner, instead of capitalising the arrears, costing her more over the term of the mortgage. Based on the income and expenditure information Mrs P provided, it appeared she may be overpaying on non-priority debts.

As of May 2020, Mrs P's account was still in arrears. It's not clear whether she's since been able to clear the arrears. If this isn't the case, she should liaise with Nationwide again to reassess her current circumstances so it can consider suitable options.

Whilst capitalising the whole arrears balance was not previously in Mrs P's best interests, there are other options available. Nationwide should engage with Mrs P if she wants. She has told us that her circumstances have recently changed as a result of the Covid-19 pandemic. Her children aren't able to contribute as much to household costs.

Nationwide has accepted that it should have provided clearer information during the call in May 2019. It has paid Mrs P £25 compensation. In the circumstances I don't think this fairly compensates her for the distress and inconvenience caused. I think an award of £250 better reflects the impact on her. I say this because for six months she was under the impression that capitalisation would go ahead. If clearer information was provided and she knew why the referral to debt charities was so essential, she would have a more realistic understanding of the situation and could've possibly taken steps to review her circumstances sooner to reduce the arrears. Instead she set up a minimal payment plan and only slightly reduced the arrears over the following six-month period, whilst under the impression that consolidation would be agreed if the payment arrangement was maintained.

Putting things right

For the reasons I have explained I believe £250 compensation better reflects the distress and inconvenience caused in the circumstances.

My final decision

My final decision is that Nationwide Building Society should pay Mrs P a further £225 compensation for the distress and inconvenience caused in this case.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 17 March 2021.

Arazu Eid
Ombudsman