

The complaint

Mr J's complaint is about a mortgage account with Nationwide Building Society. Mr J says that Nationwide incorrectly told him he'd have to make a £34,000 overpayment on his mortgage in order to meet affordability requirements, and to bypass the need for a full application with income verification. He later found this wasn't correct. Mr J also says that the mortgage term was incorrectly reduced.

To settle the complaint Mr J wants Nationwide to refund his overpayment and issue a new mortgage offer for a higher loan amount.

What happened

I will summarise the complaint in less detail than it's been presented. There are several reasons for this. First of all, the history of the matter is set out in detail in correspondence, so there is no need for me to repeat the details here. I will instead concentrate on giving the reasons for my decision.

Secondly, Nationwide has acknowledged some errors were made, and so I don't need to analyse what happened in detail in order to decide if Nationwide is at fault.

Finally, our decisions are published, so it's important I don't include any information that might lead to Mr J being identified. So for these reasons, I will keep my summary of what happened quite brief.

The events giving rise to the complaint arise out of the unhappy situation of a marital breakup. Mr J and his former wife had a joint mortgage with Nationwide secured on their matrimonial home. The mortgage was taken out in August 2017 and was on a fixed rate of interest until 31 August 2022, and was over a term of 25 years.

Briefly, from December 2021 onwards (when the mortgage balance was about £234,000 over a remaining term of 20 years) Mr J applied for a Change of Borrower (COB) to remove his former wife from the mortgage. The application didn't go smoothly, and Nationwide has accepted it made errors. Mr J was told he'd need to reduce the mortgage balance, but when he did, this resulted in a reduction in the mortgage term to 17 years, due to the way Nationwide's system was set up.

Nationwide also incorrectly recorded information about Mr J's employment status, which resulted in him being wrongly classified as employed rather than self-employed.

Mr J thought that, by making the £34,000 payment, it would expedite the application. However, Nationwide still needed to carry out underwriting. Mr J was asked for additional information about his financial circumstances, which he wasn't happy about, because he'd been told that this wouldn't be needed if he'd made the lump sum payment. After considering the application, the mortgage offer was issued by Nationwide in March 2022.

Nationwide has since acknowledged that what Mr J had been told wasn't correct. Nationwide said that the mortgage representative shouldn't have told Mr J to make the lump sum payment; rather, it was the mortgage consultant who should have done this, after the application had been submitted and prior to completion.

Nationwide said it wasn't possible to re-set the account back to its original term once it had been reduced and the application was pending. Nationwide then said it could arrange manually for the term to be re-set, but then said that if the COB completed on the shortened term, after completion the term could be set back to the original end date.

Nationwide said that it did need to assess affordability. Therefore, although errors had been made at the Decision in Principle (DIP) stage, this didn't override the need for Nationwide's underwriters to ensure that the mortgage would be affordable.

Nationwide agreed with Mr J that it appeared that the application might not have been successful if the lump sum hadn't been paid, based on the online affordability calculators.

Nationwide also explained that it wasn't able to assess an application as if the £34,000 hadn't been paid; instead this could be done if the overpayment was refunded. There was, however, no guarantee that an application for the higher amount would be agreed. Nationwide paid Mr J total compensation of £600, of which £200 was for inputting incorrect information at the DIP stage, and £300 for the issue concerning the £34,000 overpayment and a further £100 for inconvenience.

In May 2022 Mr J brought his complaint to our service. Mr J said he has suffered significant financial loss of *"tens of thousands of pounds in interest"* as a result of having made the overpayment, because his savings have consistently averaged growth of 9% per annum (which Mr J later amended to *"nearly 10%"* per annum). Mr J said this is not offset by the reduced term on the mortgage. Mr J claimed that the interest he could have earned on the £34,000 would *"in ten years' time easily have paid off the entire mortgage"*.

On 15 September 2022 the COB was completed. Because of the issues caused by the inadvertent re-setting of the mortgage term, Nationwide agreed to put in place a 1.99% five-year fixed rate product from 1 September 2022.

An investigator looked at the complaint. He noted Nationwide had accepted its mistakes, and that the COB had now gone through with the term changed back to the original end date and the new product applied. However, he didn't think the redress paid was sufficient.

The investigator thought the main issue was the overpayment of £34,000. He noted that Nationwide had offered to refund the £34,000, but that this would have required a fresh application, which he considered was not unreasonable, given that removal of one borrower would have affected affordability. Mr J clarified that he decided to go ahead with the mortgage offer issued in March 2022 for the lower amount, due to the time constraints.

The investigator wasn't persuaded that the application would have been approved without the capital reduction, and thought it might have been a necessity in any event. He also wasn't persuaded that Mr J had been earning the interest on the £34,000 that he claimed. Given this, he didn't think Nationwide was required to reimburse Mr J for the overpayment.

However, the investigator asked Nationwide to increase the compensation, by £100 per month for the ten months of delay in completing the COB (£1,000) plus a further £500 for

distress and inconvenience, so a total of £1,500. The investigator said that Nationwide “*can remove the £300 they’ve already sent him*” from this.

Neither Mr J nor Nationwide accepted the investigator’s findings.

Mr J clarified that Nationwide had paid a total of £600 compensation. However, he said “*It seems clear from the various correspondence from Nationwide that at no point have they offered any compensation, or indeed a solution, aimed at fixing the situation...*” Mr J wants to be put back in the situation he’d have been in if Nationwide hadn’t made any errors. He says the £600 “*will never cover the losses I face*”.

Nationwide said it didn’t think any additional compensation was warranted, and pointed out that the £34,000 used to reduce the mortgage balance had, in fact, been a gift from Mr J’s mother.

Provisional decision of 20 April 2023

I issued a provisional decision in which I made the following findings:

Where there is a change to an existing mortgage contract likely to affect affordability, Nationwide is entitled to consider whether or not that change will be affordable. This includes a situation where it is being asked to release one borrower from their covenants under the mortgage contract.

I’m satisfied that Mr J was told at too early a stage that he’d need to make a capital reduction in order for the mortgage to be considered affordable. But the evidence doesn’t persuade me that he was told that there would be no assessment of affordability if such a payment was made.

Nationwide gave Mr J the option of having the £34,000 returned to him but, correctly, explained that this would require a fresh application. I can’t say if the application would have been approved if the capital reduction hadn’t been made; it’s not my role to assess mortgage applications. However, based on the income shown on the application made in February 2022, I think it’s more likely than not that Nationwide would not have lent the full amount of the original mortgage balance before the capital reduction.

The reduction in the mortgage term as a result of the capital payment was triggered by the way the account was set up on Nationwide’s system, something that wasn’t anticipated when the payment was made. I can see that this caused some delay and inconvenience whilst various ways of resolving the situation were looked into. I have no doubt this was frustrating and stressful for Mr J, particularly given the circumstances in which the need for the COB had arisen. I’ve considered, therefore, whether the compensation already paid is sufficient.

In relation to the £34,000 overpayment, I think the £300 paid for the incorrect information about this is sufficient. Mr J claims to have lost “*tens of thousands of pounds*” of interest, and said this sum was earning interest at the rate of about 10% per annum. He’s provided no evidence of this.

Nationwide, however, has provided us with a copy of a “*gifted deposit form*” to show that the £34,000 was a gift from Mr J’s mother. Mr J also confirmed in writing to Nationwide that the money was a gift from his mother.

Given this, there is no basis on which I could fairly conclude that Mr J has lost interest on £34,000 of his own savings. It follows that I cannot fairly conclude that Nationwide should compensate Mr J for the loss of interest he is claiming. I think the £300 already paid is fair and reasonable.

I think that the £200 compensation offered for the error in keying information at the DIP stage is also fair. Although this resulted in Mr J incorrectly being classified as an employee, it didn't affect Nationwide's regulatory obligation to ensure that the mortgage would be affordable. I'm therefore not ordering Nationwide to do anything further in regard to this aspect of the complaint.

With regard to the incorrect term in the mortgage offer (arising from the capital repayment), I think that this caused some confusion and delay. Nationwide had told Mr J it would manually re-set the mortgage offer, but then didn't do this (because the staff member was away) and then said it couldn't do this. Overall, I don't think the £100 offered is sufficient for this. I think Nationwide should pay £300 for this (to include the £100 already paid, so an increase of £200).

This would bring the total compensation to £800.

Nationwide agreed to pay the additional compensation. Mr J had nothing further to add and said that he would also accept the decision, albeit reluctantly.

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.

I've reviewed the file, and re-visited my provisional decision. Having done so, and as both parties have accepted the outcome, I see no reason to depart from the conclusion I reached in my provisional decision.

I am therefore upholding the complaint, for the same reasons given in my provisional decision, which are set out above.

Putting things right

In addition to the compensation already paid of £600, Nationwide Building Society must pay additional compensation of £200, as detailed above.

My final decision

My final decision is that I uphold this complaint and I direct Nationwide Building Society to settle it as outlined above.

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any correspondence about the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 6 June 2023.

Jan O'Leary
Ombudsman