

The complaint

Mr M complains that Nationwide Building Society hasn't fairly accounted for overpayments he's made to his mortgage.

What happened

Mr M has a mortgage with Nationwide. He's made substantial overpayments over the years and is concerned that Nationwide hasn't accounted for them correctly – he believes the term of his mortgage should have reduced substantially as a result. He also said that Nationwide hadn't taken his concerns seriously or addressed them appropriately.

Nationwide said it had accounted for Mr M's overpayments. It said that it doesn't reduce the mortgage term where an overpayment of less than £500 is made, because that wouldn't have a substantial impact on the overall term of a mortgage. Where a payment of over £500 is made, customers can choose to have their term or their monthly payments reduced.

Nationwide said that it had reduced the term of Mr M's mortgage when he made overpayments of over £500 until 2021, when its system had stopped noting Mr M's preference for a term reduction. Three overpayments since then had been used to reduce the monthly payments. It said it couldn't re-calculate the balance of the mortgage as if the term had been reduced instead because there had been a number of changes of interest rate in the meantime and the calculation would be too complex as a result. It offered compensation of £200.

Our investigator thought that Nationwide had accounted for all the payments Mr M had made. But he said that Nationwide should increase the compensation to £300, and should also offer Mr M an appointment with a mortgage adviser to discuss further reduction in the term of his mortgage – if that was what Mr M wanted to do, and if he met Nationwide's criteria for a term reduction.

Nationwide accepted that. But Mr M didn't. So the complaint comes to me for a decision to be made.

Since Mr M made this complaint, he's made another overpayment and again Nationwide didn't use that to reduce the mortgage term – despite saying that it would do as part of its resolution of this complaint. That issue has been dealt with separately and so I'll deal with that in a separate decision.

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 think it's reasonable that Nationwide only offers the option of a term reduction where an overpayment of more than £500 is made – any less than that and the impact on the overall mortgage term is likely to be marginal.

Nationwide allows customers to express a preference for the treatment of larger overpayments – using them either to reduce the term, or keep the term the same but reduce the monthly payments. And it notes that preference on its system to avoid the need to keep asking the customer what they want to do.

It was Mr M's preference that overpayments be used to reduce the term of his mortgage. I've looked at the history of his mortgage. And I can see that overpayments he's made were used to reduce the term. The overpayments show as credits on Mr M's annual statements, and Nationwide wrote to him – I've seen copies of the letters – after each overpayment to confirm the term had been reduced.

When Mr M took out his mortgage, in 2015, he borrowed £193,500 on repayment terms over 29 years – so ending in 2044. He made a series of overpayments, all of which were used to reduce the mortgage term. By January 2020, the term had reduced to 19 years, ending in 2039. The overpayments Mr M had made had had the effect of reducing his mortgage term by just under five years.

In 2020 and 2021, Mr M made further overpayments. But as they were all under £500, they were used to reduce the monthly payments rather than the mortgage term.

Then in November 2021, December 2021 and January 2022 Mr M made three further payments, all of more than £500. Because his preference was to reduce the term, Nationwide should have done so. But that preference had been deleted from its system, so it defaulted to reducing the monthly payment instead.

That shouldn't have happened. But I don't agree that means Mr M didn't get the benefit of the overpayments. They were still added to his mortgage balance, which resulted in reduced interest being charged, and a reduction in his monthly payments. When interest rates rose in February 2022, Mr M's monthly payment rose by less than it would otherwise have done because of the January overpayment.

Nonetheless, it shouldn't have happened this way. Nationwide should have reduced the term, in line with Mr M's preference.

Putting things right

However, I agree with Nationwide that – given all the changes in interest rates, and resulting re-calculations, that have happened since – it would be complex to re-work Mr M's mortgage now as if those three payments had been used to reduce the term. As those three payments were only around £2,500 in total, the impact on the remaining term would be relatively small in any case. And even without the term reduction, Mr M has benefitted from the overpayments. I don't therefore think it's unfair, or means that Mr M has lost out, to leave those three overpayments treated as payment reducing rather than term reducing.

I do think that it's reasonable that Nationwide compensates Mr M for the disappointment of discovering that his overpayments hadn't been used in the way he intended. I agree £300 is fair compensation. And it's fair that it's willing to explore further term reductions with him – subject to meeting its criteria for doing so.

My final decision

My final decision is that it's fair and reasonable to require Nationwide Building Society to:

- Pay Mr M £300 compensation; and

- Should Mr M want to do so, offer him an appointment to discuss reducing the term of his mortgage.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 15 April 2024.

Simon Pugh
Ombudsman