

## **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.

Nationwide also said that it had corrected its systems to note Mr M's preference for term reductions and so any future overpayments over £500 would be used to reduce the term.

Mr M wasn't happy with the outcome of that complaint and brought it to us. I've separately decided that:

- Nationwide did correctly reduce the term when Mr M made overpayments up to 2021, reducing the term by about five years overall.
- However, it didn't do so correctly for three overpayments, totalling around £2,500, in late 2021 and early 2022. It used those payments to reduce the monthly payments instead.
- Mr M had still had the benefit of those overpayments, albeit not in the way he intended. However, given all the changes to his mortgage since, including several re-calculations because of rising interest rates, and because these three overpayments were relatively small and wouldn't have much impact on the term, it was fair and reasonable to require Nationwide to compensate Mr M for the upset caused by not following his instructions – but it didn't need to re-calculate the mortgage balance as if it had done so.

When dealing with that complaint, Nationwide told Mr M that it had made sure future overpayments would be used to reduce the term. Mr M therefore made a further

overpayment of £5,000 in March 2023.

Despite what it had said, Nationwide used this overpayment to reduce the monthly payments rather than the term. So Mr M made a further complaint.

Nationwide accepted it had made a mistake. It said that it would re-calculate Mr M's mortgage as if it had reduced the term in March 2023 instead. This meant it would reduce the term – but also that the reduction in the monthly payment would have to be reversed and the payment would go back up. It said that if that was implemented, it would result in Mr M having underpaid interest in the meantime, and it would write that interest off. And it offered compensation of £200.

Our investigator thought that was fair. Mr M didn't agree, so the case comes to me for a final 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.

Having thought about this carefully, I'm satisfied Nationwide's offer is fair. When something goes wrong, I'd expect a firm to put it right – by putting its customer back in the position they would have been in had nothing gone wrong.

Nationwide's offer does that. If accepted by Mr M, it will result in his mortgage term being reduced, with the effect of that being backdated to when he made the overpayment in March 2023.

That does mean the monthly payment will increase – but only to the level it would have been had it not been reduced in March 2023. So in accepting this offer, Mr M will need to be prepared for an increased monthly payment. Again, that's fair – because it puts Mr M back in the position he would have been in had his overpayment been treated correctly at the time.

I'm also satisfied that £200 compensation is fair. Given the earlier errors, which I dealt with in the other complaint, it would have been particularly frustrating that the same thing happened again. But Mr M has already been offered compensation for those earlier errors. And in this case, as soon as Mr M complained Nationwide offered to put it right. Its mistake hasn't had any immediate consequences for Mr M – other than needing to complain again – because it resulted in his monthly payment being lower than it otherwise would have been.

Taking into account the guidance on awards issued by the Financial Ombudsman Service, I think this was (leaving aside the other errors for which Mr M has been separately awarded compensation) a single error which resulted in considerable upset and frustration, but which Nationwide has offered to put right. In all the circumstances I think £200 is fair.

### **My final decision**

My final decision is that Nationwide Building Society has made a fair and reasonable offer to settle this complaint. If it hasn't already done so, it should

- Ensure future overpayments of over £500 are used to reduce the balance;
- Re-work Mr M's mortgage as if the March 2023 overpayments had been used to reduce the term – including re-instating the higher monthly payment, but writing off the underpaid interest in the meantime; and

- Pay Mr M £200 compensation.

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**