DRN-4727345

Financial Ombudsman Service

The complaint

Miss W complains that Nationwide Building Society treated her unfairly during a period when she was experiencing financial difficulty.

What happened

Miss W took a mortgage with Nationwide in 2017. She borrowed around £237,000 (inclusive of fees) on capital repayment terms over 20 years. She agreed to an interest rate that tracked 1.09% above the Bank of England base rate for 24 months. Thereafter her mortgage would revert to Nationwide's standard variable rate (SVR).

In March 2020 Miss W told Nationwide that her income had been impacted as a result of the Covid-19 pandemic. In response to the pandemic, the Financial Conduct Authority (FCA) released specific guidance for mortgage lenders – including allowing customers to defer up to a maximum of six-monthly mortgage payments. In response to Miss W's circumstances Nationwide agreed a three-month payment deferral until May 2020.

The FCA's guidance said that after the maximum six-month deferral period had ended, it expected lenders to consider tailored ongoing support for customers if needed, but normal credit reporting would resume.

It appears that Miss W still needed help to make her mortgage payments more affordable for her. In August 2020 Nationwide agreed to extend the term of Miss W's mortgage by around four years until August 2041. By which point she'd soon be reaching her 70th birthday. At this time, Miss W's mortgage was on a two-year tracker interest rate until 30 April 2021.

In late 2021 Miss W called Nationwide to explain that her circumstances were changing as she was due to return to full time education for one year. She wanted to discuss what options were available to help make her mortgage payments more affordable for her.

An appointment with a mortgage advisor was arranged. Miss W asked to switch her mortgage to interest only for a few months. The agent explained that Nationwide did not offer new interest only mortgages so that was not an option for Miss W.

The option of a possible term extension was also discussed. The advisor explained that to extend the term past retirement age, Miss W would need to undergo an affordability assessment and provide proof of current pension contributions. Miss W explained that whilst she had multiple pensions that needed consolidating, she wasn't currently paying into a private pension due to her studies. So, it appears extending the term of Miss W's mortgage into retirement wasn't deemed a possible option for her either.

The advisor explained that Miss W could explore possible short-term forbearance options, including a temporary switch to interest only, by speaking to someone in the financial difficulties team – who could assess her circumstances and consider possible suitable options. Miss W was offended by that option, she said she was not in financial difficulty – so this was not explored further.

The advisor mentioned other possible options such as switching to a fixed interest rate product or exploring options through other lenders who might offer interest only mortgages. The advisor explained to Miss W that her existing tracker mortgage was fully flexible so she could make either of these changes without any penalty. Miss W said she'd speak to her broker about her options and the call ended.

Miss W continued to manage her payments for some months thereafter. But in September 2022 she asked Nationwide for help again because she was worried about her payments. Nationwide carried out an income and expenditure assessment and agreed to offer forbearance by the way of a short-term switch to interest only for six months – by which point Miss W's course was ending and she'd be returning to full time work.

Unfortunately, the Bank of England base rate continued to rise and so did the interest rate on Miss W's tracker mortgage. Miss W's mortgage became even more unaffordable for her, and her account fell further into arrears. Reduced payment plans were agreed throughout 2023 and as such the arrears further increased.

In the early part of 2023 Miss W complained to Nationwide. She thought it was to blame for the arrears that had accrued on her account. Miss W says that had a suitable option been agreed sooner, such as switching to interest only, fixing her interest rate, and/or extending the term of her mortgage, then she doesn't think she'd be in the position she now finds herself in.

Nationwide didn't uphold the complaint. It said that to date it could not offer Miss W a fixed interest rate product while her account is in arrears. Unhappy with Nationwide's response Miss W brought her complaint to the Financial Ombudsman Service.

An investigator looked into things and didn't recommend that the complaint be upheld. She thought that Nationwide had given careful consideration to the options available to Miss W. She didn't find that it had acted unfairly in the circumstances.

Miss W didn't agree and asked for an ombudsman to make a final decision on her case.

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 done so, I don't think this complaint should be upheld. I realise this might be disappointing for Miss W. But I hope the reasons I've set out below will help her to understand why I have come to this conclusion.

The regulator of financial services, the FCA sets out rules for lenders that it expects them to abide by. The rules can be found in the FCA's Handbook, available online, in the chapter headed MCOB.

These rules require lenders to treat borrowers facing financial difficulty fairly, to help get the mortgage back on track. The rules require lenders to consider what forbearance options are appropriate in the circumstances of the individual customer.

The rules also state that in doing so, the lender must ensure that any variation made to the mortgage (for example, extending the term or changing the payment method) must be affordable for the customer. The starting point is for a lender to carry out an affordability assessment, to determine ability to repay the mortgage.

The difference between the possible forbearance options available depends on whether the customer is experiencing short-term or long-term financial difficulty. And in any event, there must be prospect of the customers circumstances improving and them being able to get their mortgage back on track and being able to repay it by the end of the term.

In considering this complaint, I've considered whether Nationwide has acted, as I'd expect, in accordance with the rules. When considering everything, I've not seen anything to suggest Nationwide has acted unfairly in the circumstances. I'll explain why.

During the discussions that took place in 2021, Miss W made it clear that she was not experiencing financial difficulty. She was facing a change in her circumstances, and she was looking for ways to make her mortgage more affordable during the one-year period that she was returning to full time education. So, she was not seeking a short-term concession in light of current financial difficulties, but rather a more long-term change to her mortgage as a solution to make her payments more affordable.

Her preferred options at that time were a switch to interest only or a term extension. Nationwide explained why neither of those options were possible in the circumstances. Nationwide no longer offers interest only mortgages – so it could not vary Miss W's contract in that way. And to qualify for a term extension into retirement, Miss W would need to go through an affordability assessment where her current pension contributions would be taken into account to look at affordability of the mortgage into retirement. Miss W explained that she was not currently paying into a pension, so Nationwide was unable to explore this option further for her. So, in these circumstances I can't reasonably say that Nationwide unfairly refused either of these options at the time.

The agent that Miss W spoke to, explained the terms of her flexible tracker interest rate and how it worked. She said that Miss W was free to explore other products with Nationwide or move her mortgage to another lender, who may be able to offer a mortgage on interest only terms without her incurring any fees for ending her current mortgage deal early.

This was news to Miss W and as such she decided to discuss her options with her independent broker further. No requests were made at that time to switch her interest rate with Nationwide. Has she chosen to do so I see no reason why that would not have been agreed at the time.

It's also worth noting that during this conversation, Miss W mentioned an expected lump sum payment of around €80,000 from a successful court case abroad. It was unclear when Miss W would be receiving the payment or what her exact intentions were for the funds. But she did mention possibly using some of the funds to repay some of her mortgage. tying herself into a fixed rate product in these circumstances may not have been the best option for Miss W, as an early repayment charge would likely apply if large payments were made towards the mortgage during the fixed term.

In any event, this option was open to Miss W but not one that she chose to explore further. In the circumstances, I've not seen anything to suggest that Nationwide didn't explain and consider all possible options available to Miss W or that it unfairly refused her request for a term extension and/or a switch to interest only.

Miss W continued to maintain her payments. From what she's said, I understand this wasn't easy for her whilst studying full time. By September 2022 she became concerned about her ability to make her payments, so she sought help from Nationwide. She was referred to the financial difficulties team. An assessment of her circumstances was carried out and Nationwide subsequently agreed to a short-term switch to interest only for around six months. This appeared to suit Miss W because the concession would last until around

February 2023 – at which time she was ending her studies and she expected to be working again earning a wage that would allow her to manage her mortgage payments again.

Miss W complains about not being offered a lower interest rate at that time. Based on her circumstances it appears Nationwide didn't offer this option as it didn't prove to be in Miss W's best interest for a couple of reasons.

Nationwide has provided information about the interest rate products from around this time. In September 2022, the fixed interest rate products available were all higher than the rate Miss W was paying on her flexible tracker product. looking at the income and expenditure assessment carried out, Miss W was in a deficit each month – even when considering the short-term interest only payments. So, switching Miss W to a fixed interest rate was not an affordable option for her and so I can't reasonably say that Nationwide acted unfairly by not agreeing to this to at the time.

In addition to this, Miss W once again mentioned the expected receipt of the lump sum payment of around €80,000. The implications of this are as I've set out previously.

So, for these reasons, I can't say that Nationwide didn't fully consider Miss W's circumstances, to help her during a time when she was finding it difficult to manage her mortgage. It appears that based on Miss W's circumstances at the time and her intended return to employment in the early part of 2023, a short-term switch to interest only was the most appropriate option for her and one that she was happy with at the time.

Things didn't improve and sadly Miss W continued to struggle to make her mortgage payments after the plan ended. I can see that Nationwide continued to agree to reduced payment options throughout 2023 as a way of supporting Miss W.

I can see that in September 2023 Nationwide did agree to switching Miss W's mortgage to a new fixed rate product. Miss W is unhappy that this option was not given to her sooner. Nationwide said that at the time its policy was that a customer needed to be up to date with their payments to switch to a fixed interest rate product.

This is because taking out a new interest rate is often not in the customer's best interest where they're experiencing long term financial difficulty and struggling with their mortgage. I say this because where there is a likelihood of them needing to sell their property or becoming repossessed by their lender, then they'd have to pay an early repayment charge – reducing any remaining capital on the property or causing a larger shortfall in some circumstances.

It appears that more recently, when taking into account the introduction of the new Mortgage Charter and the FCA Consumer Duty principles, Nationwide has agreed to a rate switch for Miss W. I think that was fair in the circumstances given that combined, the intention of both the Mortgage Charter and the FCA Consumer Duty Principles, is to offer *support for UK mortgage holders to reduce their monthly payments* while setting *higher and clearer standards of consumer protection across financial services*.

The Mortgage Charter and the new FCA Consumer Duty Principles were both introduced in July 2023 and are not retrospectively applied. For the reasons given, I'm not persuaded that Nationwide treated Miss W unfairly during her period of financial difficulty prior to this date, or that it didn't fully consider her circumstances and offer reasonable forbearance in the circumstances.

I'm sorry about the difficult circumstances Miss W found herself in, and that she feels that Nationwide didn't offer support in the form she would have preferred. But overall, I don't think Nationwide treated Miss W unfairly.

My final decision

My final decision is that I don't uphold Miss W's complaint against Nationwide Building Society.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 6 May 2024.

Arazu Eid
Ombudsman