

The complaint

Miss W's complaint is about her mortgage account with Nationwide Building Society.

The complaint is that when Miss W asked for a six-month interest-only concession under the Mortgage Charter when she had one month left on her 0.87% interest rate product, Nationwide failed to tell her that, once the product expired, her mortgage would revert to Nationwide's standard mortgage rate (SMR) of 7.99%.

As a result, Miss W believes Nationwide has incorrectly added about £7,000 to her mortgage account. Miss W wants Nationwide to compensate her for her financial losses.

What happened

I won't set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat all the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Miss W being identified.

Nationwide has accepted it made an error, so I don't need to analyse the events in detail in order to ascertain if Nationwide is at fault; all I need to determine is whether Nationwide has done enough to put things right, or if there is anything further that needs to be done.

So for these reasons, I will instead concentrate on giving a brief summary of the complaint, followed by the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

Miss W has a capital repayment mortgage with Nationwide which, in August 2023, was on a fixed rate of 0.87% which was due to expire on 30 September 2023. Miss W had reserved a new two-year fixed interest rate product, but she spoke to Nationwide about this on 15 August 2023. Miss W wasn't sure whether a fixed rate would be her best option, as she was considering moving within the foreseeable future. She asked to cancel the two-year fixed rate, and this was done, with the £999 product fee removed from her account.

Miss W also asked about applying for a six-month interest-only concession under the Mortgage Charter (MC), a voluntary code to which Nationwide subscribes. Miss W was told that if she decided to cancel the fixed rate, once the MC concession ended, the repayments would be recalculated based on SMR, to which the mortgage would revert from 1 October 2023.

However, crucially, Nationwide didn't tell Miss W that if she wanted to apply for a concession under the MC at her old rate of 0.87% to start from 1 September 2023, she'd need to do this by 25 August 2023. Nor did Nationwide explain that, although the payments will be at the rate of 0.87% for six months, once the fixed rate product expired, the interest applied to the mortgage would be 7.99%, which would increase the balance and, in turn, the repayments required to be made at the end of the MC concession, which would be from March 2024.

Miss W didn't apply for the MC concession during the call, but applied online. Because this was after 25 August 2023, the cut-off date had been missed, and so the interest-only payments were calculated at SMR of 7.99%.

Miss W complained. Nationwide investigated and responded to the complaint in a series of emails to Miss W.

After listening to the call in August 2023, Nationwide agreed Miss W hadn't been told about the cut-off date, and so had missed applying for the MC concession when her rate was still 0.87%. Nationwide agreed to back-date the concession as if it had been put in place from 1 September 2023, so the repayments would be calculated at 0.87%.

Nationwide noted that Miss W had acknowledged she didn't want a new fixed rate when she discussed her complaint on 12 September 2023, and said that she'd review her situation before the MC concession expired at the end of February 2024. Nationwide explained that the monthly interest Miss W was paying was calculated on the previous fixed rate of 0.87%. When the account reverted to SMR from 1 October 2023, the interest increased, but the lower payments remained in place. The interest under SMR continued to be added to the mortgage account, and would be factored in when the new monthly repayments were calculated at the end of the MC concession.

It was noted that a script had been read to Miss W during the 12 September 2023 call which explained that future interest rate changes would be charged to the account, but the monthly payment wouldn't be adjusted during the MC concession period.

Given this, although Miss W was paying interest at only 0.87% (giving her a monthly repayment of about £180 per month), from 1 October 2023 interest was being applied to the account at SMR. As a result, Miss W's mortgage balance had increased by the end of the MC concession by about £7,000.

Nationwide paid Miss W £75 for not telling her about the cut-off date, in addition to putting in place the concession at 0.87% she'd have applied for if she'd known about the cut-off date.

In relation to the increase to the mortgage account balance, Nationwide didn't think it had done anything wrong. Nationwide said it had explained to Miss W on 12 September 2023 that any future interest rate increases would be applied to the account, even though lower payments were being made under the MC charter. Therefore Nationwide didn't consider it had misled Miss W over this, particularly as Miss W had made it clear that she no longer wanted a fixed rate product because she was considering selling the property and didn't want to be tied into an early repayment charge (ERC).

Miss W complained to our service. An investigator looked at what had happened. He wasn't persuaded Nationwide had explained clearly enough the implications of the account reverting to SMR of 7.99% during the MC concessionary period. He thought that under the Consumer Duty, Nationwide should have explained this in more detail so that Miss W could have made an informed decision about what she wanted to do.

The Investigator didn't think Miss W would have applied for a new fixed rate with Nationwide. That's because she'd made it clear she didn't want this because she was thinking about selling her property. He asked Miss W what she'd have done differently if Nationwide had explained how her balance would increase.

Miss W said she might have considered moving her mortgage to another lender, and might also have made different financial decisions in relation to money she'd lent to a friend, as well as putting her house on the market, or not spending on her child's private education.

However, the Investigator wasn't persuaded Miss W would have acted differently, particularly given that she was very clear about why she hadn't wanted a new fixed interest rate product. He did think that Nationwide should offer Miss W an additional £150 for not clarifying the implications of the interest rate and how this would impact on the account balance when Miss W said she didn't understand what had happened.

Miss W didn't agree with the Investigator's findings and asked for an ombudsman to review the complaint. She provided information about mis-sold interest-only mortgages from a website that sells templates of legal documents, and says that she believes her mortgage has been mis-sold. Miss W also reiterated the points she's previously made about why she thinks it's unfair that interest at 7.99% has been charged to the mortgage account.

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.

There are two issues in this complaint.

The first is that Nationwide didn't explain to Miss W that she'd need to apply for the MC concession before 25 August 2023 if it was to take effect from 1 September 2023 and thus be at the rate of 0.87% for the six-month period. Nationwide acknowledged it had made this mistake. It agreed to backdate the concession at the 0.87% rate, and paid her £75 compensation.

The second issue is that Miss W says that she wasn't told that interest would be charged at SMR of 7.99% once the 0.87% rate expired, even though she'd be paying at the lower rate during the MC concession period.

This was discussed during the call when Nationwide agreed it would put the MC concession in place at 0.87%, due to Miss W not being given the cut-off date. I've listened to the call and a script was read to Miss W which said:

"Interest only payment is six months based on your current interest rate. Future interest rate changes will be charged to your account, but your payment won't be adjusted during the interest-only period. When the six months ends, it's likely that your new payment will be higher than it is today, as you'll need to pay off your mortgage over the existing terms. Your mortgage balance may increase during the six months if your interest rate changes. This change will mean that you will pay more interest over your full mortgage term."

Although the script explains the working of the MC concession, I don't think Nationwide did enough to ensure Miss W had the requisite understanding of the implications of this in relation to her mortgage. I think as a result, Nationwide didn't meet its obligations under the Consumer Duty.

The Consumer Duty is a standard introduced by the Financial Conduct Authority. It came into effect on 31 July 2023, and sets higher and clearer standards of consumer protection across financial services, requiring businesses to put their customers' needs first. Of particular relevance to Miss W's complaint is the requirement for Nationwide to provide information to Miss W in such a way that she is able to understand it.

I'm satisfied that Miss W was aware that her mortgage interest rate product would revert to SMR on 1 October 2023. That's because Miss W specifically cancelled the fixed rate she'd

applied for, and told Nationwide that the reversionary rate would suit her better, given that she was thinking of selling her property and would revisit her options at the end of the six-month MC concession in February 2024.

But I'm not persuaded Miss W fully understood the implications of the rate change or how it would affect the mortgage balance, given the shortfall between the interest-only MC concession at 0.87% and that SMR was 7.99%. Nationwide would have been aware of the very large difference in repayments, but I don't think it communicated this to Miss W clearly enough.

I think Nationwide could – and should – have explained more clearly to Miss W that whilst she was on the MC concession at 0.87%, she'd be paying less towards her mortgage than was required – because the rate had increased to 7.99% – and that, as a result, there'd be a shortfall between what she was paying and what Nationwide was charging. Nationwide should also have clarified that this additional interest would be added to the mortgage each month during the MC concession period, increasing the mortgage balance. At the end of the MC concession, the monthly payments would increase to take into account the increased balance to ensure that this shortfall would be repaid by the end of the mortgage term.

I note that after Nationwide explained this in an email dated 26 January 2024, Miss W told Nationwide she didn't understand what it had said. The evidence is therefore persuasive that Miss W didn't properly understand the implications of the interest rate increase in relation to the MC concession.

I appreciate that it came as a shock to Miss W to discover the impact of the MC concession on the mortgage account balance. However, after considering all the circumstances, whilst I'm satisfied Nationwide could (and should) have provided Miss W with a clearer explanation of the implications of the MC concession, I'm not persuaded overall that this would have resulted in Miss W making a different decision about whether or not to go onto the MC concession. I say this for the following reasons.

First of all, I see that in the email of 26 January 2024 Nationwide asked Miss W what else she'd have done if she'd realised that the interest would be charged at 7.99% after 1 October 2024. For example, would she have applied for a new fixed rate and had the MC concession for six months on a new fixed rate product? Or would she have kept things as they were? Nationwide said that if Miss W could let it know what she might have done differently, it would look to see if it could help (from which I take it to mean that it would have considered putting her on the new fixed rate product Miss W had cancelled in August 2023 that would have run from October 2023). However, Miss W didn't provide Nationwide with any further information about this.

Having looked at what Miss W told us about what she'd done differently, I'm not persuaded she'd have changed her position. Miss W said she'd have looked at what mortgages were available from other lenders. A new product would either been on a fixed-rate with an ERC, or a variable tracker rate with no ERC.

From what Miss W has said, she didn't want to be tied into an ERC, due to possibly selling the property in the foreseeable future – and that's the reason why she cancelled her new fixed rate in August 2023. And the reason Miss W wanted the MC concession was to fix her monthly repayments on interest-only for six months. So a fixed rate with an ERC or a variable rate tracker without an ERC wouldn't have met either of Miss W's objectives in this respect.

I also can't see that Nationwide can be held responsible for Miss W lending money to a friend, or for her spending money on school fees. Miss W also doesn't appear to have put the property on the market, as she's provided no evidence of any estate agent's listing.

Given this, I think the additional £150 offered by Nationwide, on top of the £75 already paid, is fair and reasonable, for the distress and inconvenience caused by Nationwide.

Finally, I've noted that Miss W has provided documents she says are from a "*mortgage litigation lawyer*" about mis-sale of interest-only mortgages, and says she thinks her mortgage has been mis-sold. This isn't an issue that's previously been raised with Nationwide, and so it doesn't form part of this complaint.

However, as the Investigator explained, Miss W's mortgage is not an interest-only mortgage. I also note that the website address on the screenshots Miss W has sent us shows that it is for a company (not a firm of solicitors) which sells document templates, and it does not provide legal advice. If Miss W believes her original mortgage was mis-sold, she is, of course, free to pursue a complaint about that. But if Miss W requires legal advice about her specific mortgage, I would strongly suggest she consults a qualified solicitor, rather than rely on template documents sold on the internet. Miss W can find details of solicitors on the Law Society website.

Putting things right

As I've explained above, I think Nationwide could have explained things more clearly both during the call in September and after Miss W said she didn't understand Nationwide's explanation given in its email dated 26 January 2024. In the circumstances, I think an additional payment of £150 is fair, reasonable and proportionate.

My final decision

To settle this complaint, I direct Nationwide Building Society to pay Miss W £150 compensation for distress and inconvenience, in addition to the £75 already paid. I make no other order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 4 November 2024.

Jan O'Leary
Ombudsman