

The complaint

Mr L complains that National Westminster Bank Plc sold him a mortgage that was unsuitable for him because he wasn't told how overpayments towards the mortgage would be applied.

What happened

In May 2022 Mr L applied for a mortgage with NatWest. He borrowed around £159,000 on capital and interest repayment terms over 26 years and 9 months.

The mortgage provides that overpayments of up to 10% of the outstanding balance can be made each year without incurring an early repayment charge (ERC). The mortgage offer says, in relation to overpayments; *"you benefit immediately from overpaying directly to your mortgage. If you make an overpayment or lump sum payment then the amount you owe, and the amount of interest you pay, is reduced immediately."*

Shortly after the mortgage completed, Mr L made an overpayment of £15,900 – which equates to 10% of the overall mortgage balance. To account for the overpayment made, NatWest recalculated Mr L's monthly payments over the remaining term of the mortgage.

Mr L complained about this. He said that he wanted to use the 10% overpayment feature to keep the monthly payment the same but reduce the overall mortgage term – to reduce the amount of interest paid.

An investigator at our service looked into things and didn't recommend that the complaint should be upheld. He said that NatWest had applied the overpayment fairly and in line with the terms of Mr L's mortgage. Mr L accepted the investigator's opinion so the case was closed.

Mr L raised another complaint with NatWest about how the mortgage was sold. He says that he told the advisor about his intention to make overpayments and also his intention to have the shortest mortgage term. So, he thinks that the advisor should have told him that any overpayments made would not reduce his mortgage term, but the monthly payments instead. Mr L feels that because this wasn't explained to him, he's been mis-sold a mortgage that's unsuitable for his needs.

NatWest didn't agree that Mr L's mortgage had been mis-sold to him, but it did uphold his complaint about the poor service he received during the complaints process. NatWest paid Mr L £50 compensation.

Unhappy with NatWest's response, Mr L asked our service to look into things. Our investigator didn't recommend that the complaint be upheld. She thought that Mr L was given clear enough information about how overpayments towards the mortgage would work and she'd seen nothing to suggest he'd been mis-advised during the sales process.

Mr L didn't agree and asked for his case to be decided by an ombudsman.

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 given careful consideration to all the submissions made by both parties, but I won't address each and every point that has been raised. I'll focus on the matters that I consider most relevant to how I've reached a fair outcome – in keeping with the informal nature of our service.

Although I've read and considered the whole file, I'll keep my comments to what I think is relevant. If I don't comment on any specific point, it's not because I've not considered it but because I don't think I need to comment on it in order to reach the right outcome. Having considered everything provided by both parties, I agree with the outcome that has been reached by the investigator. I'll explain why.

I've looked at what the mortgage contract and the account terms and conditions say about overpayments.

The mortgage offer says:

"If you make an overpayment or lump sum payment then the amount you owe, and the amount of interest you pay, is reduced immediately."

I note that the mortgage terms and conditions say:

(7.1) *"Monthly payments will be.....the amount necessary to repay the loan with interest and charges by the end of the term of the mortgage"*

(7.5) *"We can also change the monthly payments when you repay part of the loan"*

(7.8) *"When the monthly payment for a particular month is greater than or less than the amount of interest due in that particular month, the balance of the loan will be reduced or increased, as the case may be, to account for the difference between the monthly payment and the amount of interest due in that particular month. The amount of interest calculated thereafter will reflect the adjusted balance of the loan."*

So, I'm satisfied NatWest provided Mr L with information about how overpayments would affect the mortgage before he entered into the contract.

I've considered that Mr L says that he wasn't provided with a copy of the terms and conditions of the mortgage. I note that in the first section of the mortgage offer, located clearly on the front page it says *"This Offer incorporates the enclosed Loan Terms. which you should read carefully"*. I think it's reasonable to suggest that, if Mr L hadn't received the accompanying terms and conditions, he ought to have queried this with NatWest at the time. Given this was a substantial liability, secured on his principal asset, I think Mr L ought reasonably to be treated as if he had read all of the information provided.

I can't reasonably hold NatWest responsible for him not doing so and on balance I think it's likely this document was provided.

It's not the role of the mortgage adviser to explain all the mortgage terms and conditions. She was however expected to check the suitability of the mortgage before recommending it

to Mr L and she was expected to answer Mr L's questions about how the mortgage operated.

The advisor asked all the relevant questions I'd expect her to ask before providing Mr L with a recommendation. In addition, I can see that a suitability letter was issued which accurately summarised the reasons for the recommendation made.

Mr L is unhappy that the advisor didn't specifically tell him how overpayments would be applied. Especially as he said it was his intention to maintain the lowest possible mortgage term to repay the least interest on the mortgage.

I do agree that Mr L told the advisor that he wanted to pay the lowest amount of interest, so he was keen to have the shortest term. I'm satisfied that the advisor took this into account by bringing the term down to 26 years and 9 months to keep the mortgage affordable for his budget.

When discussing the overpayment feature of the mortgage, Mr L didn't tell the advisor that he wanted a mortgage where the term would reduce if he made overpayments. The conversation around maintaining a lower mortgage term wasn't discussed in the context of making overpayments. Had Mr L asked how the overpayment feature would impact the term of his mortgage – I'd have expected the advisor to answer that question, but that's not what happened here.

The advisor gave Mr L enough information to understand that he could make overpayments of up to 10% of the mortgage balance in each full 12-month period before charges would be incurred. She also explained that interest is calculated on the daily balance of the loan so Mr L would receive immediate benefit from making an overpayment.

I've not seen anything to suggest that the advisor provided mis-leading information that caused Mr L to believe that his term would be reduced if he made overpayments.

The advisor asked several questions to ensure that NatWest's products were suitable for Mr L. Mr L was very specific that he wanted a five-year fixed interest rate – for the purpose of maintaining stability during uncertain times in the financial market. He was quite clear that he did not want to assume the risk that comes with a tracker or variable interest rate product.

The advisor also asked if Mr L intended to make overpayments exceeding 10% of the mortgage balance in the foreseeable future – to which he replied that he hopes to overpay some of the mortgage in the next five years but not exceeding 10% of the balance – as that's the maximum NatWest allows on its products each year. I note that Mr L was also intending to use the overpayment feature to repay the product fee added to the loan and any excess funds that may not be needed after completion.

So, having considered this, I think the advisor asked enough questions to establish whether the range of products offered by NatWest met Mr L's needs. The advisor explained that NatWest was not currently offering variable or tracker mortgage products – so if the flexibility that these products offered were a priority for Mr L then the advisor may have referred him to an independent financial advisor who could discuss available products on the wider market. This is not something the advisor could do as she could only discuss NatWest products.

Based on the information Mr L provided, I don't agree that he received an unsuitable recommendation from NatWest's advisor.

I appreciate Mr L thinks it's unfair that NatWest's default position is that overpayments reduce the monthly mortgage payments rather than the mortgage term. Our service has

already looked into a complaint brought by Mr L about the fairness of NatWest's terms and how they've been applied when making an overpayment. Mr L didn't tell us that he wanted to take this complaint further within the deadline given, so that complaint has remained closed and it's not something that I can revisit again here in this decision.

To conclude, while I appreciate that Mr L will find the outcome of my decision disappointing, the fact remains that he entered into a contract to repay the mortgage over the 26 year and 9 month term and in line with NatWest's terms and conditions.

That said, NatWest has explained that it has since made changes to its mortgage terms. In March 2023 NatWest changed its overpayment allowance to permit up to 20% to be repaid in each mortgage year without being subject to an ERC.

In addition, at the time of providing its response to this complaint, NatWest said that it is not applying the £35 term amendment fee, so if Mr L wants to reduce his mortgage term, he can do so without being charged. If Mr L wants to change his mortgage term, he would however need to go through the advised mortgage process as NatWest would need to check his affordability for the shorter term.

If he's not done so already, Mr L may wish to discuss his options with NatWest.

Given that I don't consider NatWest acted unfairly when advising on this mortgage, I won't be directing it to do anything further in response to this complaint. I also think that NatWest has fairly compensated Mr L for the poor service he received during the complaints process to account for the inconvenience of the extra calls he had to make.

My final decision

My final decision is that I don't uphold Mr L's complaint against National Westminster Bank Plc

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 10 January 2024.

Arazu Eid
Ombudsman