

## The complaint

This complaint is about the administration of Mr and Mrs S's mortgage account held with Nationwide Building Society. After Mr S switched his current account to another bank, the direct debit (DD) for the mortgage wasn't collected. As a result, Nationwide took the mortgage payments from the overpayment reserve that had built up.

To settle the complaint, Mr and Mrs S want Nationwide to compensate them for additional interest they've been charged, reinstate the overpayment reserve and pay compensation for *"extreme distress from the anxiety and worry over the non-payment of the mortgage"*.

Mr S has dealt with the complaint throughout, with the consent of Mrs S.

## 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, Nationwide has acknowledged something went wrong, and has offered to put things right. So I don't need to determine whether or not an error has been made; all I need to decide is whether Nationwide's offer is fair, or whether it needs to do anything more.

Finally, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs S being identified. 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.

Mr and Mrs S have a mortgage with Nationwide. For the period in question – May 2023 to June 2024 inclusive – the monthly repayments varied from around £1,340 to £1,612. However, since January 2023 Mr and Mrs S had set up an arrangement from Mr S's Nationwide current account to pay £3,000 per month, thus overpaying the mortgage and building up an overpayment reserve.

Nationwide offers two options for overpayments; either the overpayments can be used to reduce the mortgage term, or it can be used to reduce the account balance, and thus the interest charged on the mortgage over the term. In this case, the reserve was set up to reduce the interest charged on the account balance.

In May 2023 Mr S switched his current account from Nationwide to another bank. As part of the switching process all Mr S's DD's were transferred to the new bank account. However, no DD was set up for the mortgage with the new bank, and so no DD was collected by Nationwide for the monthly mortgage payment. Nationwide's system was set up to use the overpayment reserve in this situation, which it did for the period May 2023 to July 2024.

This didn't come to light until July 2024, and Mr S complained to Nationwide. He said that, because Nationwide had depleted the capital reserve in order to take the repayments, additional interest would be charged, which Mr S estimated to be about £7,000.

Initially Nationwide said that it was the other bank that was at fault for not setting up the DD, but the new bank said that Nationwide hadn't collected the DD. It later transpired that the reason the DD hadn't been set up was because Mr S's mortgage (and overpayment) had been paid from a Nationwide current account. This hadn't been set up as a DD, but as an internal transfer. Nationwide paid compensation of £100 for this.

Dissatisfied with Nationwide's response, Mr and Mrs S brought the complaint to our service. At this point, Nationwide made an offer to settle the complaint. Nationwide agreed to credit the mortgage with the additional interest that would have been charged as a result of not making payment by DD between May 2023 and June 2024, where the payments had been taken out of the overpayment reserve instead. This would be based on the actual monthly payment, not the £3,000 Mr and Mrs S had been paying prior to May 2023.

Nationwide calculated this as follows:

The total interest charged to the mortgage between 1 May 2023 and 30 June 2024 was £8,841.20. If payments had been made by DD (leaving the overpayment reserve in place), the total interest would have been £8,405.70, a difference of £435.50. Nationwide therefore offered to credit £435.50 to the mortgage account.

However, Nationwide didn't agree to cover the mortgage payments for this period, arguing that it was the responsibility of Mr and Mrs S to pay the mortgage each month. The overpayment reserve in May 2023 was £28,238.44, and up to June 2024 payments totalling £20,671.87 were taken from this reserve. Nationwide said that if Mr and Mrs S wanted to make up these missed payments, Nationwide would reinstate the reserve at that level and adjust the interest accordingly.

The Investigator thought this was fair in all the circumstances. She noted that the annual mortgage statement sent in January 2024 showed that the monthly repayments were being taken from the reserve, and thought this should have alerted Mr and Mrs S to the problem. In addition, the Investigator thought that Mr and Mrs S ought to have noticed that there were additional funds accumulating in the current account at a rate of £3,000 each month. Given this, the Investigator thought Nationwide's offer was fair and reasonable, taking into consideration Mr and Mrs S's duty to mitigate their position.

Mr S disagreed with the Investigator's findings and asked for an Ombudsman to review the complaint. Mr S has made some further points, which I summarise as follows.

Mr S said that he and his wife weren't in a position to reinstate the overpayment reserve. He said that the claim is that they shouldn't have to pay the interest between May 2023 and June 2024, in order to put them in the position they'd have been in if Nationwide had collected the DD. In addition, Mr S said that he hadn't realised sooner that £3,000 wasn't being taken from his current account every month as the account held so much money that he didn't notice this. The fact that he benefitted from these funds has no connection to the complaint as the money wasn't used to reduce the mortgage.

### **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'll begin by explaining that modern banking is largely an automated process, where systems are set up to administer accounts – in this case a current account and a mortgage account. Therefore, when a current account is switched, there is minimal human involvement in setting up new DDs, as these are transferred electronically onto the new bank's Automated Direct Debit Instruction Service (AUDDIS) system. The AUDDIS system automates the transfer of DD instructions from collecting organisations to the paying bank.

Given this, when Mr S switched his current account, the DDs weren't set up manually. The new bank wasn't to have known that Mr S's mortgage payments had been made by internal transfer rather than DD. Likewise, Nationwide wouldn't have had a staff member monitoring the mortgage account to check if a new DD had been set up. If there'd been no overpayment reserve, the absence of a DD would have been immediately flagged once the first mortgage payment had been missed in May 2023. But because there was an overpayment reserve, Nationwide's system was set up to collect the payments from that in the absence of a DD. This is standard banking practice, and I'm therefore not persuaded Nationwide could have been aware of the situation until Mr S contacted it in July 2024.

Nationwide's role is to administer the mortgage, not to manage it on behalf of Mr and Mrs S. It was up to Mr and Mrs S to ensure their monthly payments were being made. After Mr S had switched his current account, it would have been prudent for him to check his statements for the next few months to ensure all DDs had been paid correctly. Had he done so, I think Mr S would have been aware much earlier that the £3,000 per month he'd been expecting to pay each month wasn't being collected.

I've noted what Mr S has said about the reason why he didn't notice this – which is that his account held such a large amount that he didn't realise he had an extra £3,000 per month. However, I'd have expected him to have been aware that he had had the benefit of an extra £39,000 to spend over the period May 2023 to June 2024 inclusive, as this is a significant sum of money.

I also note that the January 2024 annual mortgage statement showed that from May 2023 onwards the monthly mortgage payments had been taken from the overpayment reserve, and that this was decreasing. I think that if Mr and Mrs S had reviewed their mortgage account statement, at the very latest they'd have been aware of the situation in January 2024.

In the circumstances, I'm not persuaded Nationwide can be held responsible for reinstating the overpayment reserve, or for removing all interest charged to the mortgage for the period May 2023 to June 2024.

### **Putting things right**

Nationwide has agreed to adjust the interest on the account as if the overpayment reserve had remained in place and payment had been taken by DD from May 2023 to June 2024. Nationwide has calculated this to be a difference of £435.50. I think this is fair and reasonable in all the circumstances.

Nationwide has also said that, if Mr and Mrs S want to reinstate the overpayment reserve, they can do so. I appreciate Mr and Mrs S say they don't have the funds to do this, but as I've explained above, I think they would, or should, have been aware that they had an additional £39,000 between May 2023 and June 2024 that they thought was being paid to the mortgage account. I can find no basis on which it would be fair or reasonable to expect Nationwide to reinstate the overpayment reserve, given that during this period Mr and Mrs S weren't paying the mortgage from their current account.

I think the £100 Nationwide has already paid for distress and inconvenience is fair. Mr S was concerned about the potential impact on his and Mrs S's credit files of the failure to collect the DD, but as the mortgage was paid out of the overpayment reserve, there was no impact on their credit scores. In the circumstances, I think £100 is appropriate and proportionate in all the circumstances.

### **My final decision**

My final decision is that Nationwide Building Society must credit Mr and Mrs S's mortgage account with £435.50. I make no other order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs S to accept or reject my decision before 11 February 2025.

Jan O'Leary  
**Ombudsman**