

The complaint

Mrs A1 and Mrs A2's complaint arises from their mortgage account held with Nationwide Building Society. They are unhappy that they were told that if they made £100 monthly overpayments towards their mortgage this would reduce the mortgage term, when instead it would only reduce the balance.

To settle the complaint, Mrs A1 and Mrs A2 would like their overpayments returned as they believe they've been mis-sold their mortgage.

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 it made an error, and has taken steps to address this. I therefore don't need to decide whether or not Nationwide is at fault; all I need to determine is whether it has done enough to put things right, or if there is more it needs to do.

Finally, our decisions are published, so it's important I don't include any information that might lead to Mrs A1 and Mrs A2 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.

Mrs A1 and Mrs A2 have a mortgage with Nationwide originally taken out in 2016. A product switch was put in place in 2019 for a five-year fixed rate. The mortgage offer provided that overpayments of up to 10% of the original loan amount could be paid each year without incurring an early repayment charge (ERC).

From April 2020 Mrs A1 and Mrs A2 began making overpayments, usually of £100 per month. They expected these to reduce their mortgage term, and Nationwide had confirmed in an email that this would be the case. However, this wasn't correct, because Nationwide's policy for overpayments was that only payments in excess of £500 per month would trigger a term reduction. Any payment under that amount would instead be used to reduce the mortgage account balance, and thus the amount of interest charged on the mortgage.

Mrs A1 and Mrs A2 learned the true position and complained to Nationwide in early 2024. In its final response letter, Nationwide acknowledged its error. As an exception to its usual policy, Nationwide agreed to use the overpayments already made to reduce the mortgage term, rather than the account balance. Nationwide also paid £150 compensation.

Mrs A1 and Mrs A2 weren't happy with this, and referred their complaint to our service. An Investigator looked at what had happened but didn't think Nationwide needed to do anything further. She was satisfied there'd been no financial loss because the overpayments would

have reduced the interest accrued on the account. The Investigator also noted that, when the fixed rate expired, Mrs A1 and Mrs A2 would be able to reduce their mortgage term, should they wish to do so.

The Investigator was satisfied that Nationwide's offer to reduce the mortgage term using the overpayments already made was fair in all the circumstances, and thought the compensation offered of £150 was appropriate.

Mrs A1 and Mrs A2 disagreed and asked for an Ombudsman to review the complaint. They say they would like the overpayments they've made (about £4,000) to be paid back to them. However, the Investigator noted that when Mrs A1 and Mrs A2 had taken out a new interest rate product in July 2024, they actually extended the mortgage term. Mrs A1 and Mrs A2 had explained to the Investigator that at this point affordability was an issue, and so reducing the mortgage term would have resulted in higher monthly repayments.

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.

Nationwide doesn't dispute that it gave Mrs A1 and Mrs A2 incorrect information when they were told that their £100 monthly overpayments would reduce the mortgage term when, in fact, they'd be used to reduce the balance and thus the interest charged on the mortgage. As an exception to its general policy (where only overpayments in excess of £500 per month are used to reduce the term), Nationwide agreed to use the overpayments already made to reduce the mortgage term.

I'm satisfied this is fair in all the circumstances, as it puts Mrs A1 and Mrs A2 in the position they thought they'd be in by making overpayments of £100 per month. Their overpayments haven't therefore been used to reduce the interest charged on the account; instead the mortgage term has been shortened by a few months, which is what Mrs A1 and Mrs A2 had wanted at the time. If Nationwide was to return the overpayments (as Mrs A1 and Mrs A2 said they wanted at the outset), this would increase their monthly repayments because the account balance would increase by the amount repaid to them. I'm not persuaded that would be in the best interests of Mrs A1 and Mrs A2.

It was open to Mrs A1 and Mrs A2 to reduce the mortgage term when they took out a new interest rate product in July 2024. However, they've explained that affordability was an issue, and so didn't do this. They have the option to reduce the mortgage term by making overpayments in excess of £500 per month, but any overpayments below that level will result in the overall balance being reduced, not the term. So if Mrs A1 and Mrs A2 want to make overpayments that will reduce the mortgage term, they will need to ensure the payments are £500 or more.

I think the £150 paid by Nationwide for any trouble and upset is fair in all the circumstances. As the Investigator explained, we don't make awards of compensation that are intended to be punitive, and for the error which Nationwide identified (and, as an exception, corrected in favour of Mrs A1 and Mrs A2), I think £150 is appropriate for any distress and inconvenience caused. I am therefore not asking Nationwide to do anything more.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A1 and Mrs A2 to accept or reject my decision before 10 February 2025.

Jan O'Leary
Ombudsman