

The complaint

Mr D and Mrs D complain about the method Nationwide Building Society has used to calculate the interest charged in their first mortgage payment.

What happened

Mr D and Mrs D took out a new mortgage with Nationwide which completed on 29 April 2024. They borrowed £230,000 on a capital repayment basis to be repaid over a term of 34 years. The initial interest rate was to be fixed at a rate of 4.24% for around five years.

Nationwide wrote to Mr D and Mrs D on 1 May 2024 to confirm how much their first and subsequent mortgage payments would be. It said that the first payment is higher than the ongoing payments because the first payment includes interest for the month in which the mortgage started, as well as the ongoing payment.

Mr D called Nationwide in May 2024 to query the amount of the first mortgage payment, which he felt was too high. Once Nationwide provided a copy of its calculation Mr D raised further concerns about the calculation method – he felt it was unfair and that it wasn't in line with the mortgage contract. Ultimately, as Nationwide was unable to resolve his concerns, a complaint was raised on his and Mrs D's behalf.

Nationwide accepted that it had given Mr D some incorrect information over the phone and offered to pay £100 to apologise for this. However, it didn't agree it had calculated or charged the "residual interest" amount (the additional amount of interest applied to Mr D and Mrs D's first payment) incorrectly. Nationwide said that using the daily interest amount to do this isn't the correct way to calculate the residual interest, and that it has a formula to calculate that. Mr D and Mrs D didn't agree so they asked the Financial Ombudsman Service to look into their complaint.

Our Investigator didn't think Nationwide had acted unfairly in how it had calculated the residual interest amount. But she felt the information Nationwide provided about this could have been clearer. So, she recommended that Nationwide should increase its offer and pay Mr D and Mrs D a total of £200 to recognise this.

As neither party agreed, the Investigator arranged for the case to be reviewed by an Ombudsman. So, it has been passed to me to decide.

My provisional decision

I didn't think Nationwide had acted unfairly or unreasonably in the way it had calculated the interest and monthly payments on Mr D and Mrs D's mortgage account. And I considered its offer to pay Mr D and Mrs D £100 in recognition of the non-financial loss they'd experienced was fair. I said:

"Nationwide calculates the amount of interest a consumer will cover in their normal monthly payment by calculating the total interest for the year and dividing it by 12 (representing the 12 months of the year). This means that each monthly payment

includes around 30.4 days of interest. To be clear, this does not mean Nationwide is charging annual interest – interest is still calculated and charged daily. But the cumulative interest for 365 days (assuming payments are made, and so the balance reduces, as scheduled throughout the year) is then divided by 12 to ensure that each monthly payment is the same even though different months have different numbers of days, and even though the balance (and so interest charged each day) reduces during the year. The annual total which is divided by 12 is not therefore a fixed daily sum multiplied by 365, but the cumulative total of each day's separate interest amount. Calculating the payment in this way enables Nationwide to charge not just a fixed interest rate but also a fixed monthly payment.

When Mr D and Mrs D's mortgage completed, they were charged an additional amount of around £97, which is around £40 higher than Mr D and Mrs D think it should be. At this point there were around 247 days left in the calendar year. But as Mr D and Mrs D would be making eight contractual monthly payments from May to December 2024 – with each payment including 30.4 days of interest – they would only have repaid around 243.3 days of interest by the end of the year. This would leave around 3.7 days' worth of interest unpaid (the residual interest), which in turn would mean their mortgage balance would be higher than it should be by that point. So, to ensure the residual interest would be covered, Nationwide included that amount in Mr D and Mrs D's first monthly mortgage payment.

This means that their May payment was very slightly higher than would have been the case had they been asked to pay interest as it had arisen instead (31 days in May plus 29 and 30 April is 33 days, whereas 30.4 notional days in May plus 3.7 residual days is 34.1 days). However, it also means that over the 247 days of 2024 in total they have paid the correct amount.

The mortgage offer sets out that the additional interest charged in the month of completion will be included in the first payment:

“You will need to make an initial payment including interest charged in the month of completion...”

And the terms and conditions set out how Nationwide will work out the monthly payment to ensure the amount owed including interest is repaid in equal instalments:

“We work out your monthly payment so that the amount you owe us (not including arrears) is repaid with interest in equal instalments over your mortgage term.”

I'm satisfied the calculation method Nationwide has used is allowed for within the mortgage terms and conditions. And I'm not persuaded Nationwide has acted unfairly in how it has calculated the residual interest amount for Mr D and Mrs D's mortgage, or in how it has calculated the contractual monthly payments. The method used was to ensure that Mr D and Mrs D repaid the interest due for the remainder of the 2024 calendar year. While I accept that this method is not the only way of calculating interest – or how that interest will be covered by the monthly payments – it doesn't mean the method used it is unfair, or that it is illegitimate. It allows Nationwide to charge a fixed sum each month, regardless of the length of the month – which is important to many customers.

For these reasons, I do not consider Mr D and Mrs D have been overcharged, and I don't intend to direct Nationwide to anything differently in relation to the interest or monthly payments.

In terms of the information provided to Mr D during his phone calls with Nationwide I agree, having listened to the available call recordings, that some incorrect information was given to him. However, I do also consider that in the second call, Nationwide's agent took several reasonable steps to obtain and provide the correct information to Mr D. Although the length of the call could have been shorter, I don't think this was because Nationwide was acting unfairly or unreasonably.

The Investigator recommended that Nationwide should increase its compensation offer to pay Mr D and Mrs D £200. However, I see no reasonable grounds on which I can conclude Nationwide should increase its initial offer, which was to pay Mr D and Mrs D £100. I'm persuaded that Mr D and Mrs D were caused some inconvenience by being given some incorrect information and by Nationwide not writing back to them initially. But I provisionally consider Nationwide's offer to pay £100 compensation fairly recognises the non-financial loss they have experienced."

I invited Mr D and Mrs D and Nationwide to let me have any further comments or evidence they wanted me to consider before I make my final decision.

Nationwide said it accepts my provisional decision.

Mr D and Mrs D didn't agree and re-iterated their concerns about the way in which their mortgage interest and mortgage payment has been calculated. They maintain that they should have only been charged for two days of daily interest in their initial monthly payment. And they feel Nationwide's calculation of "residual interest" is nonsensical.

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 appreciate that Mr D and Mrs D feel strongly that the calculation method Nationwide has used is a "scam" and that it has caused them financial detriment. However, as I explained in my provisional decision and for the same reasons, I'm not persuaded this is the case. I do not consider Nationwide has acted unfairly in the way it has calculated the interest or the contractual monthly payments on Mr D and Mrs D's mortgage.

As I have not seen any new evidence that changes my mind, I see no reason to depart from my provisional decision.

My final decision

My final decision is that Nationwide Building Society should pay Mr D and Mrs D the £100 it has offered if it has not already done so.

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

Keith Barnes
Ombudsman