

## The complaint

Mr and Mrs T complain about the interest rate Nationwide Building Society has charged on their mortgage. In particular, they're unhappy that it didn't reduce the interest rate when Bank of England base rate reduced – even though it reduced the interest rate on its savings accounts at the same time.

## What happened

Mr and Mrs T have a mortgage with Nationwide. This mortgage began in 2008, with some borrowing ported over from a previous mortgage taken in around 2007, and further borrowing added at the time of the port. The ported balance was on an existing fixed rate, and the new balance on a new separate fixed rate. The mortgage offer said that both borrowing amounts would revert to Nationwide's Base Mortgage Rate (BMR) at the end of the respective fixed rate terms.

The offer said:

“Base Mortgage Rate (BMR) – our Base Mortgage Rate, which is our standard variable rate, as varied from time to time – currently 6.49%. This rate is guaranteed to be no more than 2% above Bank of England base rate. For the purpose of this guarantee, any variation to the interest rate as a result of a change in the Bank of England base rate will take place within one month of the announcement of such change. Before or after the loan is made, we may change our Base Mortgage Rate under our Mortgage Conditions 2001.”

In 2016 Mr and Mrs T took further borrowing. This third part of their mortgage was on a five year fixed rate until 2021, and then another five year fixed rate until 2026. As this part of the mortgage has never been on the BMR, it is not affected by this complaint.

The other two parts of Mr and Mrs T's mortgage have been on the BMR for many years – since 2012 and 2013 respectively. By 2021, Bank of England base rate was 0.1%. But then base rate increased during 2022 and 2023, reaching a peak of 5.25%. More recently, base rate has reduced – first to 5.00% and then 4.75%.

Mr and Mrs T complain that Nationwide increased the BMR, and so increased the interest rate it was charging them, when base rate increased, but that it failed to reduce the BMR when base rate reduced. They point out that the interest rate on their savings account did reduce, and they don't think it's fair that their mortgage rate didn't. They said this failed to take into account the cost of living crisis and wasn't in accordance with the regulator's Consumer Duty. It wasn't a good customer outcome to reduce savings rates but not reduce mortgage rates.

Nationwide said it hadn't acted unfairly. It said it had operated the mortgage in line with the terms and conditions by keeping the BMR within 2% of base rate at all times. It said that Mr and Mrs T had paid off the ported balance in 2024 and taken a new fixed rate from November 2024 on the 2008 further borrowing balance, which meant their mortgage would no longer be subject to BMR in future.

Mr and Mrs T weren't happy with that and brought their complaint to us. Our investigator didn't think it should be upheld, so Mr and Mrs T asked for it to be reviewed by an ombudsman. They said that regardless of whether Nationwide was permitted to keep the BMR the same by the terms and conditions, doing so wasn't fair and amounted to "sharp practice". It's not fair and reasonable to put rates up but not bring them down again – reducing the savings rate but not reducing the mortgage rate is a breach of Consumer Duty, because it means that Nationwide benefits from both decisions at the expense of customers.

### **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 start by considering whether Nationwide had the power to increase the BMR in 2022 and 2023, and had the power not to increase it in 2024. I'll then go on to think about whether the way Nationwide exercised its contractual powers was fair and reasonable in all the circumstances – taking into account, among other things, the requirements of the Consumer Duty.

I've set out above that the mortgage offer explains that the BMR will never be more than 2% above base rate. But this doesn't of itself give Nationwide the power to change the interest rate. That power is set out in the terms and conditions, which say:

"We may change the interest rate applicable to the debt at any time except during any fixed rate period under the mortgage offer ... We will only change the interest rate for one or more of the following reasons:

- (i) to reflect a change, or a change we expect to occur, in the cost of funds we use for our mortgage lending;
- (ii) to reflect any change in the law or decision by a court;
- (iii) to reflect a change in regulatory requirements;
- (iv) to reflect a change in the way the property is used or occupied;
- (v) to reflect a change in the credit risk relating to the loan."

This is a permissive power, not a mandatory one. In other words, it enables – but does not require – Nationwide to vary the interest rate, but only if certain conditions are met. If the conditions are met, it can choose (or choose not) to vary the interest rate, but if the conditions are not met it cannot vary it.

I'm satisfied that varying the interest rate to reflect changes in base rate comes within the first condition – to reflect changes in the cost of funds used for mortgage lending – because Nationwide's funding costs are linked both to the returns it has to provide to savers to generate capital, and the costs of raising funds on the money markets.

When Nationwide increased the BMR in 2022 and 2023, therefore, it was entitled to do so under the terms and conditions, subject to the additional constraint in the mortgage offer that the BMR was not more than 2% above base rate. And when Nationwide did not reduce the BMR in 2024, it was also acting in line with the terms and conditions – because, as I've explained, they empower but do not compel Nationwide to change the interest rate, and because the BMR remained within 2% of base rate even after base rate reduced.

I've then gone on to think about whether Nationwide's actions were fair and reasonable in all the circumstances. Mr and Mrs T's mortgage had been on the BMR for many years. Throughout that time, the BMR varied in line with base rate, so that it was always 2% above base rate – until June 2023. At that time the Bank of England increased base rate by a further 0.5%, and Nationwide decided not to pass that increase on by increasing BMR. BMR therefore stayed the same, and the margin over base rate dropped from 2% to 1.5%.

Base rate was then stable for some time, before reducing in 2024. There were two reductions, each of 0.25%. Nationwide did not pass these reductions on either – meaning that BMR stayed the same, and that the margin over base rate increased from the 1.5% level it had been at since 2023 back to the 2% level it had been at historically before June 2023. Nationwide says it didn't increase BMR in June 2023 to support customers who had, by then, been exposed to a series of base rate increases at the time of a cost of living crisis, by absorbing the final round of increased costs without passing them on to customers.

I'm therefore satisfied that Nationwide acted fairly. The effect of its decisions was that it absorbed the 0.5% June 2023 increase temporarily, before restoring the historic 2% margin a year later. Mr and Mrs T were therefore better off than they would have been had Nationwide passed on the June 2023 increase and then the 2024 reductions. By not passing on the reductions having not passed on the increase Nationwide restored the BMR to its historic position relative to base after a period in which it was reduced.

I've taken into account what Mr and Mrs T have said about savings rates – that it's not fair for Nationwide to reduce savings rates but not reduce mortgage rates. But they are separate products, with separate histories, separate costs (albeit that there is some linkage in that Nationwide uses funds raised from savers to fund, in part, its mortgage lending business) and different considerations. I don't think it follows, or should fairly be expected, that Nationwide must always change interest rates on savings products and mortgage borrowing at the same time or by the same amount.

I do see why, viewed in isolation, Mr and Mrs T believe that the failure to reduce BMR in 2024 was unfair, especially when their savings rate reduced but their mortgage rate didn't. But I don't think it's appropriate to view it in isolation. Looked at in its wider context, the decision not to pass on the reductions in base rate was simply the mirror image of the earlier decision not to pass on the increase, thereby shielding them from the effect of the peak in base rate between 2023 and 2024.

I think the appropriate comparator for the decision not to reduce the BMR in 2024 is not the decision to reduce savings rates in 2024. Rather, the appropriate comparator is the decision not to increase BMR in 2023. The 2024 decision restored the longstanding position that the BMR was 2% above base rate after a period when Nationwide reduced the margin to support customers. Looked at in that context, I don't think the failure to reduce in 2024 was unfair.

In reaching that conclusion I've taken full account of Nationwide's obligations under the Consumer Duty. As our investigator pointed out, Nationwide no longer offers mortgages or mortgage products featuring the BMR (it has a different standard variable rate for newer mortgages). That means Mr and Mrs T's mortgage is what's known as a closed product – a product no longer offered to new customers – and therefore Consumer Duty only applies to Nationwide's acts and omissions since 31 July 2024. Consumer Duty came into force on 31 July 2023, but implementation was delayed by a year for closed products.

Strictly speaking, therefore, Consumer Duty is only relevant to decisions Nationwide made after 31 July 2024 – which covers the period of the 2024 base rate changes but not the earlier ones. But in any case I don't think it changes my view of this complaint. It's correct

that Nationwide is required to act to deliver good customer outcomes, taking account of the various Consumer Duty obligations. Of most relevance to this complaint is the “price and value” outcome, which requires Nationwide to ensure that its products provide fair value to customers, and the cross-cutting obligations to act in good faith and avoid foreseeable harm. But acting to deliver good customer outcomes doesn’t mean that a firm must always do what its customers want, or that it can’t take account of other considerations. And it doesn’t mean that every customer will always achieve the outcome they want in every situation.

I think the evidence shows that Nationwide acted to protect the interests of its customers, and balance that with its own commercial position, by deciding to absorb the final 0.5% base rate increase, and then deciding to increase the BMR margin back to 2% a year later when base rate reduced. It meant that Mr and Mrs T were charged less than they otherwise would have been over that period.

I’ve also borne in mind that throughout this period the BMR was still lower than the reversion rates of many mortgage lenders, including Nationwide’s own standard variable rate applied to more recent mortgages. And I’ve borne in mind that Nationwide had alternative interest rates – such as lower fixed rates – that Mr and Mrs T could have applied for (as they did in November 2024). Even after base rate reduced and the BMR didn’t, the BMR was not out of line with interest rates charged in the wider mortgage market. This is a relevant consideration in thinking about whether the BMR offered fair value.

For all those reasons, I’m not persuaded Mr and Mrs T were treated unfairly or have lost out financially. As I’ve said, by not passing on the increase and then not passing on the equivalent reductions in base rate, Nationwide maintained the BMR at its long-term position of 2% over base rate, but with a period of around a year when the margin reduced to 1.5% temporarily. This meant that Mr and Mrs T paid less interest as a result of Nationwide keeping the BMR at the same level than they would have done had it increased and then reduced the BMR instead. There’s no obligation in the terms and conditions for Nationwide to pass on every reduction in base rate. And, in the circumstances of this case, not passing on the reductions in 2024 didn’t result in Mr and Mrs T being treated unfairly.

### **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 Mr T and Mrs T to accept or reject my decision before 10 July 2025.

Simon Pugh  
**Ombudsman**