

The complaint

Mr and Mrs P complain that Nationwide Building Society has wrongly administered their mortgage. They said they weren't able to use the Overpayment Reserve on their mortgage in the ways they'd expected, and Nationwide's explanations of this made no sense

What happened

Whilst this complaint is brought by both Mr and Mrs P, as the mortgage is in both their names, our dealings have been with Mr P. So I'll mainly refer to him in this decision.

Mr P told us he and Mrs P had taken out a ten-year mortgage in October 2015, initially on a five-year fixed rate, then re-fixed in August 2020 for a further five years. Mr and Mrs P have two other mortgage accounts with Nationwide, which will continue for longer, but the term for this mortgage (account ending 7157) was due to end in October 2025.

Mr P said they had been making regular overpayments of just over £125 per month. He said they'd understood this would be kept in an Overpayment Reserve pot, and could be used to make underpayments if needed. Mr P said the regular overpayment amount was under £500, so he knew Nationwide wouldn't automatically use the payment to reduce his mortgage term, but he could call Nationwide and ask it to do that, if he wanted.

Mr P said as this Overpayment Reserve pot is an extra amount, on top of what he had agreed to pay, he had assumed if he didn't use it to reduce his term he would get this amount back at the end of this mortgage's term.

Mr P said he'd used some of the Overpayment Reserve in February 2025 to make one of the monthly payments for all three of the mortgage accounts he and Mrs P have with Nationwide. That meant he'd used a little over £1,225. Mr P said his monthly payment for mortgage account ending 7157 then increased significantly. He said he should have investigated this at the time, but he assumed Nationwide had got things right.

Mr P said in April 2025, his Overpayment Reserve on this account was about £1,850. That was more than the outstanding balance on this part of his mortgage, so Mr P contacted Nationwide and asked it to use this balance to pay off this mortgage account. But Nationwide said the Overpayment Reserve had already been factored into the balance of his mortgage account, and his mortgage's agreed termination date was still October 2025. Mr P said that made no sense, his termination date would only have stayed at October 2025 if he hadn't been making overpayments.

Mr P said the person he spoke to on the phone couldn't explain this to him, and he was told to go into a branch. The person he spoke to in the branch agreed a mistake had been made, and he should complain. Mr P said while Nationwide was considering this complaint, it wrote to him and said the payment for this mortgage account was going up again, Nationwide had re-calculated the payments and his previous monthly payments wouldn't be enough to pay off his mortgage by the end of the term.

Mr P said he didn't think Nationwide should increase his payments during a fixed interest

rate period, and he couldn't see how an increase could be justified, if he'd been making overpayments. Nationwide said it was because of the missed payment in February 2025, but Mr P said Nationwide had already increased his payments because of that.

Mr P said Nationwide was now insisting it had done nothing wrong. It offered him a payment of £75 for the initially poor customer service experience, but it still hadn't sorted things out.

Before our service responded on this complaint, Mr P wrote once more to say his mortgage was going up for a third time. He felt very strongly that Nationwide had got things wrong.

Nationwide said it hadn't made a mistake. Mr P's mortgage went up in February because he used some of his Overpayment Reserve. His mortgage went up again in May, when he changed his direct debit date, and it went up a final time in September, when his existing fixed interest rate deal ended. Nationwide said Mr P's mortgage account was due to be paid off in October 2025, so it couldn't put a new fixed interest rate deal on this mortgage account, and he'd have to pay the standard variable rate for the very end of this mortgage.

Nationwide said it had applied Mr P's previous overpayments properly. It had used them to reduce the balance of this mortgage account. So, whilst Mr P could then miss payments to the value of the Overpayment Reserve, if he did so that would put his mortgage account balance back up, and mean he'd need to pay more to make sure the account was cleared by its original term end date.

Nationwide didn't think this was a mistake. But it did think it had done a poor job of explaining this to Mr P at the start of his complaint, so it offered him £75 to make up for that.

Our investigator didn't think this complaint should be upheld. He said Nationwide had already accounted for the Overpayment Reserve, in the balance on this mortgage account. So when Mr P missed his February payment for all of his mortgage accounts, the monthly payment for this account went up. And because it was so close to the end of his mortgage term, it went up quite a lot.

Our investigator said there were further changes to Mr P's monthly payments, one as a result of changes he made to his payment date, and another when this part of the mortgage came off its fixed interest rate deal. He didn't think Nationwide had got things wrong here. And he thought a payment of £75 was fair to make up for the poor service Nationwide had given at the start of this complaint.

Mr P didn't think that could be right. He said Nationwide shouldn't be using his Overpayment Reserve pot to calculate his final balance, as it's a separate pot. He still thought he'd lost the benefit of years of overpayments. Mr P wanted his complaint to be considered by an ombudsman, so it was passed to me for a final decision. And I then reached my provisional decision on this case.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it in part. This is what I said then:

Mr P has been concerned that Nationwide has made some potentially quite serious mistakes in how it treated his mortgage overpayments. I don't think it has, but I think its explanation of this has fallen rather short of being as clear and helpful as it might have been.

Mortgages are a surprisingly complex financial product, and even more so when, like this one, they include some flexibility and allow for overpayments. I can hear that Nationwide's agent struggled, on a call with Mr P, to explain this to him. And unfortunately, the complaint response it has shared with Mr P since then, hasn't resolved this for him.

I'll try to set this out for Mr P now, and I'll ask Nationwide to confirm my understanding of this when it responds to this provisional decision.

To start with, it's worth recalling that there are two very different ways an overpayment can impact a mortgage. It can be used to reduce the payments each month – that means the mortgage still gets paid off over the same time period, but the customer pays less each month. Or, if the monthly payments stay the same, then that overpayment can be used to shorten the mortgage term – the same payments each month, but fewer payments overall.

Mr P has been overpaying on this mortgage account (ending 7157) for some time. His previous statements show that he's been building up an "Overpayment Reserve", which was over £3,000 by the end of 2024.

I'll continue to refer to this as the "Overpayment Reserve" because that's what Nationwide calls it. But I do think this name has caused some of the confusion here.

Mr P has said he's understood the "Overpayment Reserve" is an entirely separate pot of money, which isn't taken into account in his existing mortgage balances. He said this money hadn't been used to reduce the mortgage term, or to reduce his monthly payments. That's why he thought he had used part of it to meet a monthly payment for his mortgage, and also why he wanted to use the rest to pay off this mortgage account.

But that's not how the "Overpayment Reserve" works. Nationwide hasn't been ignoring this extra amount that Mr and Mrs P have been paying each month. It has used this to reduce the balance on this mortgage account.

The statements Mr P gets from Nationwide say this about his "Overpayment Reserve".

Note: This is how much you've overpaid your mortgage by and has already been taken off the balance. If you underpay or borrow back (if you have this feature) all or part of this amount, then your balance will increase, and you will pay interest on this higher balance.

Every payment Mr P makes towards this part of his mortgage, is taken into account in the account balance which shows on his statements. There's no separate pot, which isn't being used, made up of his overpayments.

Nationwide's website also says the same –

*How an Overpayment Reserve works
When you make overpayments on your mortgage, the extra amount is used to reduce your mortgage balance. This helps lower the amount of interest charged over time. We keep a record of these overpayments as an Overpayment Reserve.*

So when Mr P looks at his mortgage balance, that amount isn't a separate figure to the "Overpayment Reserve". It's what's left to pay, after all his payments have been taken into account, including the overpayments he's made.

And there's something else that Nationwide has done, to take account of those overpayments. About five years ago, it recalculated his monthly payments.

Every time the interest rate on this mortgage changes, Nationwide looks at how much Mr P owes. It does that taking account of **all** the payments he's made to this account, so including the contractual monthly amount and the overpayments. And it then works out how much he will need to pay each month going forwards, to clear the mortgage by the end of the term.

I'm satisfied that doing this is in line with the terms and conditions of Mr P's mortgage.

So, although Mr P hasn't asked Nationwide to use the overpayment to reduce his contractual monthly payments, it did just that, the last time he took out a new fixed interest rate. And I can see Nationwide does say it will do this, on its website –

How overpayments will affect your mortgage

We calculate the interest on your mortgage daily so all overpayments will reduce the interest you pay the following day.

For overpayments of less than £500

We'll reduce your minimum monthly payments at the next natural recalculation point, such as an interest rate change or product expiry.

That leaves us with the central question, which is, I think, what Nationwide hasn't explained to Mr P - what is the "Overpayment Reserve", if it's not a separate pot of money?

All Nationwide is doing here, by keeping a running total of Mr P's "Overpayment Reserve", is keeping a record of how much more than his expected monthly payments, Mr P has paid towards this mortgage account, over the lifetime of the account. Nationwide has, effectively, pre-agreed that Mr P can reduce any future payments by the same amount, if he wants to.

But, for our current purposes, that's all this "Overpayment Reserve" figure is. It's just a pre-agreed amount that Nationwide will allow Mr P to increase his mortgage debt by. Or in other words, a pre-agreed amount of payments to his mortgage that Mr P can miss.

So because there isn't a separate pot, whenever Mr P doesn't pay a contractual monthly amount, his balance will go back up again.

That's why Nationwide asked Mr P to pay more each month, after he used this pre-agreed flexibility to miss a payment on all of his mortgage accounts in February. And because this one of Mr P's mortgage accounts was due to end very soon, the impact of that missed payment on this account was quite marked. His minimum monthly payments for the account went up quite a lot.

There were, unfortunately, then two separate further increases in Mr P's monthly payment, one when Mr P changed the payment date, and another when Mr P's existing fixed interest rate deal ended, and he went onto Nationwide's standard variable rate for the short period before this mortgage account was paid off.

I think that when Mr P spoke to Nationwide, it should have provided him with an explanation of the above, and in particular of how the "Overpayment Reserve" works.

We know that didn't happen, and the confusion this case seems to have persisted. It's disappointing to hear that this wasn't resolved even when Mr P then spoke to a mortgage specialist. The complaint response that Nationwide sent didn't explain the above to Mr and Mrs P either.

This lack of clarity has meant Mr and Mrs P have had this issue prolonged for them. And I think this could largely have been avoided if Nationwide had taken care to make sure its explanation of what happened was clear and comprehensible to those who don't spend their working lives immersed in how mortgages work.

So, although I don't think Nationwide made a mistake in how it administered Mr and Mrs P's mortgage, I do think it let them down by not explaining to them how their overpayments had been used, and what the "Overpayment Reserve" figure actually meant. Because of that, I think Nationwide should make a total payment of £250 in compensation now. Nationwide can count towards that amount the payment of £75 which it has previously made.

I invited the parties to make any final points, if they wanted, before issuing my final decision.

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 responded to say it would accept my provisional decision. Mr and Mrs P didn't respond.

I'll now make the decision I originally proposed.

My final decision

My final decision is that Nationwide Building Society must pay a total of £250 in compensation in this case. Nationwide Building Society can take into account the payment of £75 which it has previously offered, if that payment has already been made.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P and Mr P to accept or reject my decision before 31 December 2025.

Esther Absalom-Gough

Ombudsman