

## **The complaint**

Mr N and Ms P complain that NATIONAL WESTMINSTER BANK PUBLIC LIMITED COMPANY wouldn't allow them to take a new interest rate product on part of their mortgage. It said the outstanding mortgage balance was too low so they weren't eligible for a new rate.

## **What happened**

Mr N's and Ms P's NatWest mortgage is in three parts. Their main mortgage balance, part one, is on a fixed interest rate until 2028. In March 2023 they took additional borrowing of £10,500, part two, on a fixed interest rate until 30 June 2025. In January 2024 they took a further tranche of additional borrowing, part three, on a fixed rate until early 2026.

All three parts of the mortgage permit overpayments to be made up to a certain limit without incurring early repayment charges. In January 2024 Mr N and Ms P made an overpayment of £8,100. They asked for the overpayment to be split across the mortgage, with £2,000 to be allocated to part one, £2,100 to part two, and £4,000 to part three. NatWest followed those instructions.

In March 2025 Mr N and Ms P wanted to arrange a new interest rate product on part two of the mortgage, because their existing fixed rate was ending in June 2025. But NatWest wouldn't allow them to do so. It said this was because it doesn't offer new interest rate products on mortgages with balances of less than £10,000, and the balance on part two was below this threshold.

Mr N and Ms P thought this was unfair, so they made a complaint. NatWest said it had applied its policy correctly and it had done nothing wrong.

Mr N and Ms P referred their complaint to us. Our Investigator recommended that the complaint should be upheld. She said that NatWest should re-work the mortgage as though the January 2024 overpayment had been applied to a different part of the mortgage, and backdate an interest rate product on part two. She said it should also pay Mr N and Ms P £200 compensation.

NatWest accepted that recommendation. It said Mr N and Ms P had contacted it on 11 March 2025 to arrange a new interest rate product, so it would offer them a rate for which they would have been eligible on that date and backdate it to 1 July 2025 (when the previous fixed rate ended).

Mr N and Ms P didn't accept the Investigator's recommendation. They wanted a refund of any extra interest they had been charged on NatWest's standard variable rate (SVR) and more compensation for their time and inconvenience. They also said steps should be taken to ensure other borrowers in a similar situation are offered a resolution.

## **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.

Having done so, I find I can't fairly require NatWest to do more than it has now offered. I've noted Mr N's and Ms P's concerns about wider consumer detriment, but the Financial Ombudsman Service isn't a regulator. While we may share these sorts of concerns with the relevant regulator, the Financial Conduct Authority, we decide each complaint on its individual merits.

Lenders are entitled to have eligibility criteria for their products, and there are good reasons for not making new interest rate products available on mortgage balances below a particular threshold – not least because it may not be cost-effective for a borrower to pay a product fee in return for a lower interest rate. Paying interest at the lender's SVR may work out to be cheaper overall, depending on the cost of any product fees and the rate. So I don't consider that NatWest has done anything wrong in having eligibility criteria for new rates.

However, Mr N and Ms P have said – and I accept – that they would have chosen to allocate their overpayment differently in January 2024 had they known they wouldn't be able to take a new rate on part two of their mortgage if the balance fell below £10,000. NatWest didn't tell them about that when they contacted it before making the overpayment, and they couldn't have known about it. NatWest was the expert, and it should have given them enough information before they made the overpayment so that they could make an informed decision which would enable them to meet their objectives.

Mr N and Ms P have asked for the £2,100 which was paid to part two of their mortgage to be moved to part one. NatWest has offered to re-work the mortgage on that basis, as though the £2,100 overpayment had been made to part one instead of part two. It has also offered to backdate a new fixed interest rate product on part two to 1 July 2025. I think its proposal to offer a rate for which part two of Mr N and Ms P's mortgage would have been eligible on 11 March 2025 is fair, since this is when its records show they asked about a new rate.

This would put Mr N's and Ms P's mortgage in the position it would have been in if their overpayment had been distributed differently and a new interest rate product had been made available on part two, and I think that's reasonable in the circumstances. It amounts to a refund of the interest Mr N and Ms P have paid on the SVR on part two of their mortgage. It's for Mr N and Ms P to decide whether to go ahead with a backdated interest rate after NatWest provides them with details of its available products as at 11 March 2025, bearing in mind the level of any product fee and interest saving.

Mr N and Ms P have said that they should receive more than £200 for the impact this matter has had on them. They have been inconvenienced and wasted time. There's information on our website about awards we make for non-financial loss.<sup>1</sup> Given the relatively small balance on part two of Mr N and Ms P's mortgage, they haven't had to pay significantly more each month than they would have done on a fixed interest rate since July 2025, and they haven't said anything to indicate that this has caused them problems. I think Mr N and Ms P had to spend time sorting this matter out and it has been inconvenient, but in all the circumstances I don't consider that I can fairly award more than the £200 NatWest has offered.

### **Putting things right**

NATIONAL WESTMINSTER BANK PUBLIC LIMITED COMPANY should:

- Re-work Mr N and Ms P's mortgage as though the overpayment of £2,100 made to part

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<sup>1</sup> <https://www.financial-ombudsman.org.uk/consumers/expect/compensation-for-distress-or-inconvenience>

two of their mortgage in January 2024 had been credited to part one of the mortgage instead, including adjusting the interest on parts one and two to reflect this – subject to the limit on overpayments to part one not being exceeded;

- Provide Mr N and Ms P with details of the interest rate products it had available on 11 March 2025 for which part two of their mortgage would have been eligible with the higher balance following the recalculation above;
- If Mr N and Ms P select one of those products, apply the new rate and any relevant fees, backdated to 1 July 2025. In doing so the difference in interest Mr N and Ms P have paid between the SVR and the new interest rate product on part two should be refunded.
- If, following these recalculations, Mr N and Ms P have paid more interest than they should have done on part one and/or part two of the mortgage, they may choose to have that difference paid to them directly, plus 8% simple annual interest from the date each overpayment of interest was made to the date of settlement, or leave it on the mortgage to reduce the balance;
- Pay Mr N and Ms P £200 compensation.

If NatWest considers that it's required by HM Revenue & Customs to deduct income tax from the 8% interest element of any payment above, it should tell Mr N and Ms P how much it has taken off. It should also give Mr N and Ms P a tax deduction certificate if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.

### **My final decision**

My final decision is that NATIONAL WESTMINSTER BANK PUBLIC LIMITED COMPANY should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N and Ms P to accept or reject my decision before 3 March 2026.

Janet Millington  
**Ombudsman**