

The complaint

Mr and Mrs H complain that Bank of Scotland plc (trading as Halifax) made errors when they repaid their mortgage and unfairly applied an early repayment charge (ERC) of about £150. They ask that Halifax refunds the ERC and apologises for the stress caused.

What happened

Mr and Mrs H had a fixed interest rate product for part of their mortgage. This expired on 30 April 2023. An ERC applied if the mortgage was repaid during the product term. Mr and Mrs H repaid this part of their mortgage in mid-April 2023 and Halifax applied the ERC.

Mr and Mrs H say Halifax made an error when it didn't apply the redemption funds to the correct sub-account. They say they wouldn't have repaid the mortgage in April 2023 if they'd been told about the ERC.

Our investigator said the ERC and when it applied was set out in the mortgage offer and annual statements. She said Halifax made it clear when Mrs H called in April 2023 that there would be no ERC from 1 May 2023. Our investigator said Halifax applied the ERC in accordance with the mortgage terms and hadn't made an error or acted unfairly.

Mr and Mrs H didn't agree. They said the reason they called Halifax in April 2023 was to get guidance. They said they received letters saying the fixed rate would expire on 30 April 2023 and this prompted them to repay the mortgage. Mr and Mrs H were dealing with health and family matters at the time. They said if they'd known about the ERC they'd have waited two weeks to repay the mortgage.

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.

Mr and Mrs H had two mortgage sub-accounts. The smaller part of their mortgage (sub-account 1) had a fixed interest rate product which expired on 30 April 2023. The larger part (sub-account 2) has a fixed interest rate product which is due to expire in January 2027. Both products have ERCs which apply if the mortgage is repaid during the product term.

Mr and Mrs H wanted to repay sub-account 1. From what they've said, it seems this was prompted by letters from Halifax saying the fixed rate was due to end and a higher interest rate would apply after the end of April 2023.

Mrs H called Halifax in mid-April 2023. She said they had a small mortgage due to come to the end of its fixed rate on 1 May 2023 and they wanted to repay it. Halifax confirmed the fixed rate would end on 30 April 2023. It confirmed the redemption was for 1 May 2023. It gave Mrs H a settlement figure for 1 May 2023. It said there wouldn't be an ERC because they wouldn't be on the fixed rate on 1 May 2023. It said the settlement figure included interest accrued to 1 May 2023. Halifax said it would take the usual direct debit on 1 May 2023 and would either allocate the excess to the other sub-account or refund it.

Mr and Mrs H made a payment in mid-April 2023 to repay sub-account 1. Halifax incorrectly applied the payment across both sub-accounts. It corrected this on 21 April 2023. It paid compensation for the inconvenience and refunded interest on sub-account 1.

Halifax told Mr and Mrs H they needed to pay an ERC. This was because they repaid the mortgage in April 2023, before the fixed rate ended.

Halifax was entitled, under the mortgage terms, to apply the ERC when the sub-account was repaid during the product term. I think it gave Mr and Mrs H clear information about this.

The mortgage offer set out the amount of the ERC (as a percentage of the amount repaid) and when the ERC applied. The annual mortgage statement sent to Mr and Mrs H in January 2023 set out the amount of the ERC (about £175) for sub-account 1 and said it applied until 30 April 2023. Halifax was clear during the call in mid-April 2023 that the settlement figure was for 1 May 2023 and no ERC was payable because they would no longer be on the fixed rate product on 1 May 2023.

I don't think it was incorrect or unfair for Halifax to apply the ERC. I don't think it's fair and reasonable in the circumstances to require it to refund the ERC or pay compensation for any upset caused to Mr and Mrs H due to it being applied.

While Halifax made an error when it initially allocated the repayment to both sub-accounts, I think the steps it took to correct the error were fair and reasonable.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H and Mrs H to accept or reject my decision before 20 March 2024.

Ruth Stevenson
Ombudsman