

The complaint

Mr F complains about the early settlement fee when he settled his loan with Bank of Scotland trading as Halifax.

What happened

On 19 August 2023 Mr F entered into a loan agreement with Halifax for £11,500. The term of the loan was five years.

Mr F settled the loan early around one month after taking it out. He contacted the bank on 19 September 2023 to complain that it was unfair that he'd had to pay £11,902.20 to settle the loan. Mr F asked Halifax to refund the penalty interest of £250.

Halifax didn't uphold the complaint. In its final response it said that when a loan is repaid early, an early settlement adjustment was applied. The bank explained that it calculates 58 days interest of the current balance, capped at £250. Halifax advised Mr F that this was set out in his loan agreement.

Mr F remained unhappy and brought his complaint to this service.

Our investigator didn't uphold the complaint. They said the loan agreement made it clear that there would be a charge for settling the loan early.

Mr F didn't agree. He said he didn't think such a high fee could be justified. He said he'd been charged £400 just for having the loan for one month.

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've reviewed the loan agreement. This states that the loan can be repaid early and sets out how the settlement amount will be calculated, including the charge for interest. The terms and conditions of the loan were accepted by Mr F when he signed the loan agreement.

I've also seen an early settlement quote dated 19 September 2023 which was sent to Mr F following his enquiry about settling the loan early. This details the sum required to settle the loan early and refers to the penalty interest of £250. Mr F proceeded to settle the loan having received this settlement quote, so I'm satisfied that he knew that the penalty interest would be charged.

I appreciate that Mr F believes the amount of the charge to be unfair. However, I'm satisfied that the loan agreement makes it clear that the charge would apply, so I'm unable to say that Halifax made an error.

I've checked the calculations provided by the bank. Interest on the loan began to accrue from the date of the loan advance – 19 August 2023. At the date when Mr F asked for a settlement quote, £152.20 of interest had accrued on the loan balance. The extra interest on

early settlement was calculated based on 58 days but capped at £250.

Mr F has said that he was charged £400 to have the loan for one month. On one analysis that's correct. However, this figure is comprised not just of the penalty interest of £250, but of accrued interest on the loan of £152.20.

I understand that Mr F feels strongly about this. However, for the reasons I've explained, I can't see that Halifax has made any errors or treated Mr F unfairly, so I'm unable to uphold the complaint.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 18 April 2024.

Emma Davy
Ombudsman