

The complaint

Mr M complains he was charged penalty interest on a fixed rate ISA from West Bromwich Building Society trading as the West Brom (WB).

What happened

Mr M opened a five-year fixed rate ISA with WB in August 2022. In June 2023, the balance was £30,170.97. The interest rate was 3.1% per annum. It was due to mature on 31 August 2027.

WB then had a new offer of a five-year fixed rate ISA at a higher rate – 4.6% p.a. And in June 2023, Mr M decided to take advantage of it.

He called WB on 6 June 2023 and then applied for the new five-year fixed rate offer – the application was received by WB on 9 June 2023 and the new account was opened on 12 June 2023; and the funds transferred from the old fixed rate account to the new account.

Mr M was then charged an early withdrawal fee of £614.97 – this was equivalent to 240 days interest on the old account balance and interest rate.

Mr M called WB on 14 June 2023 and then on 1 July 2023.

Mr M complained. He says he appreciated he was initially told (on 6 June 2023) that there would be an interest rate penalty when he applied for the new fixed rate offer. But he wanted to confirm that and so called WB again on 14 June 2023 and 1 July 2023.

On both calls, he says he was told there wasn't a charge. So – he was disappointed there was one. If he had been told there would be a charge on those two calls, he could've changed his mind (as it was still within the 14-day cooling off period) and not made the switch. That would've then avoided the charge. He says WB made an error and should refund the penalty charge of £614.97.

WB said Mr M had told the firm he was aware of the charge of 240 days' interest – and told WB he was confident he could make that up by investing in the higher rate product. So – WB didn't uphold that part of Mr M's complaint.

Turning to the call on 14 June 2023, WB accepted they had made an error in telling Mr M there wouldn't be a loss of interest when switching from the old product. He was also promised a call back, which didn't happen. For those errors, WB offered to pay compensation of £75.

Mr M didn't accept the offer of compensation and brought his complaint to us. Our investigator issued two views. The first one upheld Mr M's complaint, said WB should refund the penalty charge, and pay compensation of £75.

But after WB sent further evidence, he changed his view and didn't uphold Mr M's complaint. He said WB should pay £75 for the errors on the latter two calls. But he said the penalty charge was reasonable and didn't recommend its refund.

Mr M didn't agree and asked that an ombudsman look at his complaint, and so it has come to me to make a 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.

There are two parts to Mr M's complaint:

- What happened on the call on 6 June 2023 and the subsequent application for the new fixed rate deposit.
- What he was told on the calls on 14 June 2023 and 1 July 2023.

6 June 2023:

Mr M applied for the new fixed rate deposit. I looked at his application form. This is clear as:

- It shows Mr M applied for a five-year fixed rate deposit at a rate of 4.6% p.a., balance (approximately) £30,260.
- The form says *"if your existing West Brom ISA is a fixed rate ISA, there may be a loss of interest as a result of the transfer. Please confirm whether you are happy to accept the loss of interest?"* Mr M ticked the box 'Yes'.
- I also looked at the 'investment certificate' sent to Mr M in August 2022 when he took out the original fixed rate ISA. This says *"Withdrawals (including transfers and early closures) are permitted with a charge equivalent to 240 days loss of interest"*.
- Mr M was sent a letter at the same time (August 2022) which also said *"Withdrawals (including transfers and early closures) can be made subject to a charge equivalent to 240 days loss of interest"*.
- I listened to the call which took place on 6 June 2023. And – Mr M said *"I know there is a penalty (to close the old fixed rate ISA)...(but) the rate is much better as rates have gone up....I know there is a penalty (of) 240 days interest...I will make it up over five years"*.

So – when Mr M made the decision to switch from the old fixed rate deposit to the new one, I'm satisfied he knew there would be a penalty charge, and he expected that to be the case. He had also worked out that he accepted the penalty as he would receive more interest than it by transferring to the new fixed rate ISA.

Mr M then sent the application form to WB and the new deposit was set up on 12 June 2023.

14 June 2023:

Mr M then called WB on 14 June 2023. I listened to the call. Mr G was questioning the closing interest on the old account. Mr G asked if there was a penalty for the early withdrawal and was told there wasn't. That was repeated twice by WB's call handler.

1 July 2023: Mr M called again and I listened to this call also. WB's call handler said there hadn't been a penalty charged. But after Mr M questioned that, she said she would get it

looked into – as she wasn't sure what had happened.

WB have accepted that Mr M was wrongly told there wouldn't be a penalty and offered compensation of £75.

The crux of this complaint is therefore that – Mr M argues that had he been told on the calls that there was a penalty, he could've then stopped the transfer - as it was within the 14 day cooling off period. And therefore avoided the penalty charge.

I reviewed the terms of the new fixed rate deposit – and these do say there was a cooling off period – the fixed rate ISA information says *"If you change your mind after you've opened your account, don't worry. If you tell us within 14 calendar days, we'll give you your money back with interest straightaway."*

Mr M called WB on 14 June 2023 – and was told there hadn't been a penalty charge. At that time, he could then have decided not to go ahead – as it was within the 14-day cooling off period.

So, I need to decide if Mr M would likely have not gone ahead if he had known about the penalty interest charge.

But it's important to note that he made his investment decision on 6 June 2023 – when he called WB. And on that call, I'm satisfied he was aware there would be a penalty charged, and how much it would be. It's clear he had worked out how much the penalty would be, and it was worth it – given the higher rate on the new deposit.

I considered the figures – the investment of £30,170 at the old rate of 3.1% - would attract interest of £4,676 over five years. The investment at the new rate would make interest of £6,939 over five years. Given the difference of around £2,263 (over five years), I'm persuaded that it's more likely than not that Mr M would've gone ahead and made the switch in any case, even if he had been told on the call on 14 June 2023 that there had been a penalty.

So, given all of this, I'm satisfied that it was reasonable that WB charged the penalty, and I am not going to say it should be refunded.

WB agreed that they made an error on the calls on 14 June 2023 and 1 July 2023 and offered compensation of £75. Mr M didn't accept this and it hasn't been paid. I'm satisfied that this is reasonable in the circumstances, and so this decision directs WB to pay this amount to Mr M. **(continued)**

My final decision

West Bromwich Building Society trading as the West Brom has already made an offer to pay £75 to settle the complaint and I think this offer is fair in all the circumstances.

So my decision is that West Bromwich Building Society trading as the West Brom should pay £75.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 April 2024.

Martin Lord
Ombudsman