

The complaint

Mr S and Miss P's complaint arises from the redemption of their mortgage with Bank of Scotland PLC trading as Halifax. They are unhappy that, on redemption of the mortgage, they incurred an early repayment charge (ERC) when they say Halifax had told them they wouldn't have to pay this. In addition, Halifax took an additional direct debit payment after the mortgage was repaid, which they had to reclaim via the direct debit indemnity scheme.

Mr S and Miss P would like Halifax to compensate them for their financial losses.

What happened

I won't set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat all the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to Mr S and Miss P being identified.

For these reasons, I will instead concentrate on giving a brief summary of the complaint, followed by the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

Briefly, in 2017 Mr S and Miss P took out a mortgage with Halifax. In September 2020 a product switch was taken out for a four-year fixed interest rate of 2.29% which expired on 31 January 2024. The mortgage offer states that if the mortgage was repaid, in full or in part, before 31 January 2024 an ERC would be payable.

The mortgage offer also explained that the interest rate product was portable onto a new Halifax mortgage on another property, subject to meeting Halifax's lending criteria.

In 2023 Mr S and Miss P were looking to move house and discussed porting their mortgage interest rate product, as well as borrowing additional funds from Halifax to fund their purchase. However, Halifax wasn't prepared to lend Mr S and Miss P the full amount they wanted. As a result, Mr S and Miss P arranged a mortgage with a new lender, and redeemed their Halifax mortgage on 24 August 2023. They were charged an ERC of about £3,600.

In addition, another direct debit for the mortgage was taken on 29 August 2023, which Mr S reclaimed via the direct indemnity guarantee on 5 September 2023.

Mr S and Miss P complained to Halifax. They were unhappy about the additional direct debit, and said they'd been told no ERC would be payable.

Halifax didn't uphold the complaint. The bank explained that its process, where redemption of a mortgage took place close to the date when a direct debit was due, was that the direct debit would be refunded within ten days. However, as Mr S had already reclaimed it, no automatic refund took place.

In relation to the ERC, Halifax said that it had not told Mr S and Miss P that they wouldn't be charged an ERC on redemption of the mortgage. The ERC would only be refundable or waived if the existing interest rate product was ported onto the new mortgage. But as Mr S and Miss P went to a new lender, the ERC had been properly charged and so no refund was due.

Dissatisfied with Halifax's response, Mr S and Miss P raised the complaint with our service. An Investigator looked at what had happened but didn't think the complaint should be upheld. He was satisfied the ERC had been properly charged, and that it was common practice in the mortgage industry for direct debits to remain active until after the mortgage had been redeemed.

Mr S and Miss P didn't agree with the Investigator's findings and asked for an Ombudsman to review the complaint. Mr S, who has dealt with the complaint throughout, believes Halifax made an error in relation to collecting the direct debit after the mortgage had been redeemed, and insisted he'd been told the ERC wouldn't be payable.

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 listened to all the calls between Mr S and Miss P and Halifax from the time they were looking to port their mortgage interest rate product onto a new mortgage. I'm satisfied Halifax did not say during any of those calls that no ERC would be charged. As stated in the product transfer offer from September 2020, where a mortgage interest rate product is being ported onto a new mortgage, any ERC is refunded or waived. However, if the mortgage is redeemed without a new Halifax mortgage to port the product to, the ERC is payable and not refundable.

Mr S and Miss P were initially looking to port the mortgage interest rate product onto a new Halifax mortgage on the property they were buying. If Halifax had agreed to lend them what they needed to buy the property, any ERC payable on redemption of the mortgage on their sale would have been reimbursed or waived by Halifax. But Halifax didn't agree to lend the amount Mr S and Miss P needed, and so they went to another lender. As a result, they redeemed the mortgage in full with Halifax.

In the circumstances, I'm satisfied that the ERC was properly due and chargeable, in accordance with the mortgage terms and conditions.

In relation to the direct debit, it is standard practice for lenders to ask for this to remain in place. Generally the direct debit will stay 'live' until the redemption funds have cleared and the account is redeemed. The redemption funds were received on 24 August 2023, a Thursday. There are steps to be taken to close the account, which take a few days. This was a Bank Holiday weekend, and so there wasn't time before the direct debit was due to be collected on 29 August 2023 (the first working day after the Bank Holiday) to close the mortgage account and cancel the direct debit.

I can see that on the redemption statement, the solicitors acting for Mr S and Miss P were instructed to inform their clients not to cancel the direct debit, as this is something Halifax would do automatically once it had gone through its redemption procedures. Any overpayment would automatically be refunded. However, Mr S reclaimed the amount through the direct debit indemnity, and so wasn't out of pocket.

Overall, after carefully considering everything Mr S and Miss P and Halifax have said, I'm unable to find the bank has done anything wrong.

My final decision

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

This final decision concludes the Financial Ombudsman Service's review of this complaint. This means that we are unable to consider the complaint any further, nor enter into any discussion about it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Miss P to accept or reject my decision before 2 December 2024.

Jan O'Leary
Ombudsman