

The complaint

Mr and Mrs J's complaint is that they were wrongly charged an early repayment charge (ERC) by Santander UK Plc when they redeemed their mortgage in 2018 and ported the interest rate product onto a new mortgage. Although Santander has now reimbursed part of the ERC, Mr and Mrs J are unhappy with this.

They also say that Santander told them they would not have to pay an ERC if they redeemed their mortgage before the ERC period expired in 2022, due to Mrs J's health. Because they redeemed their subsequent mortgage in 2023, no ERC refund was paid, but Mr and Mrs J want Santander to pay them compensation because Mr and Mrs J say they had a £34,000 shortfall when they redeemed the mortgage in 2023.

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, Santander has acknowledged it made an error, so I don't need to set out a detailed analysis of the events in order to determine whether the bank is at fault; all I need to decide is whether Santander has done enough to put things right, or if there is more the bank needs to do. Finally, our decisions are published, so it's important I don't include any information that might lead to Mr and Mrs J being identified.

So 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.

In 2018 Mr and Mrs J had an interest-only mortgage of about £365,000 with Santander held under account ending 8023, which was on a fixed rate product. If the mortgage was redeemed in full or in part before 2 July 2019, an ERC of 3% of the amount repaid was payable. However, the interest rate product was portable, which meant that if the mortgage interest rate product was transferred onto a mortgage on a new property, a refund of the ERC charged on the amount ported would be refunded.

In June 2018 Mr and Mrs J sold their property, paying an ERC of £10,619.76 on redemption of account 8023. They took out a new mortgage with Santander (ending 9527), porting £240,000 of their existing interest rate product onto the new mortgage. Santander should therefore have refunded 3% of the amount ported once the new mortgage completed, but this was overlooked.

In July 2019 Mr and Mrs J took out a new interest rate product, a fixed rate of 1.69%. If the mortgage was repaid in part or in full before 2 October 2022, an ERC of 3% of the amount repaid would be charged. The mortgage term was due to end on 1 November 2022, when the full amount of £240,000 was repayable.

In 2020 Mr and Mrs J explained to Santander that they were intending to sell the property, but that Mrs J had suffered a serious illness. Santander agreed that it would waive the ERC in the circumstances.

However, due to difficulties obtaining building materials because of the pandemic, completion of the new property Mr and Mrs J were intending to move into (which was being built for them by a family member) was delayed. In August 2023, after both the ERC and the mortgage term had expired, Mr and Mrs J sold their property and repaid the mortgage in full. Mr and Mrs J say they had a shortfall on redemption, and had to sell their car and take out a personal loan in order to meet the shortfall of about £34,000.

It wasn't until 2024 that Santander identified that the refund Mr and Mrs J should have received in 2018 hadn't been paid, when they redeemed account 8023 but ported the interest rate product onto account 9527 with a balance of £240,000. Santander calculated that Mr and Mrs J should have been given a refund of £7,200, which was 3% of the £240,000 they ported.

Santander paid this, together with interest at 8% simple per annum for the period covering the date the ERC was paid until the date of refund, an amount of £2,704.48, making a total refund to Mr and Mrs J of £9,904.48.

Mr and Mrs J complained. Initially Santander couldn't locate Mr and Mrs J on its system but subsequently issued its final response explaining how the refund had been calculated and which mortgage account it related to.

Dissatisfied with Santander's response, Mr and Mrs J referred their complaint to our service. An investigator looked at what had happened. She was satisfied that the refund Santander had made in relation to the ERC that had been paid in 2018 was correct, and that the interest of 8% per annum was appropriate and satisfactory. However, she asked Santander to pay compensation for distress and inconvenience of £300, which Santander agreed to do.

Mr and Mrs J didn't accept this, however. They reiterated that, on redemption of the mortgage in 2023, they had a shortfall of about £34,000 and had to take out a loan of £25,000 and sell their car for £9,000. They consider Santander to be responsible for this.

Because the complaint is unresolved, it falls to me to issue 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.

As I said at the outset, it's not disputed that Santander made a mistake in 2018 when it should have made a partial refund of the ERC Mr and Mrs J paid when they redeemed account ending 8023, but ported £240,000 of the mortgage onto account 9527 on the mortgage on their new property using the previous interest rate product. The refund should have been made shortly after completion of the new mortgage in 2018.

I'm satisfied Santander has now done enough to put this right. The bank has paid the partial ERC refund that was due to Mr and Mrs J, and has paid interest on this at 8% simple per annum, which is the statutory interest rate used by the courts, and which is the rate I would have used if the refund had not already been made.

Santander also acknowledged during the course of the investigation that no payment for distress and inconvenience had been made, and agreed to pay the £300 the Investigator asked it to. I think this is fair, reasonable and proportionate in all the circumstances.

Santander had agreed in 2020 that if Mr and Mrs J redeemed account 9527 during the period when an ERC applied, the bank would waive this, given Mrs J's illness. I think this was fair and reasonable. However, by the time the mortgage was repaid, the ERC period had already lapsed, and so no ERC was charged on redemption. Mr and Mrs J have therefore incurred no loss in this respect.

I've noted what Mr and Mrs J have said in relation to the shortfall that arose when they redeemed the mortgage in 2023. Mr and Mrs J say they had a shortfall of about £34,000 that they had to find when they sold the property. However, they sold their property for £643,000 on 3 August 2023, and repaid the mortgage of just over £240,000 to Santander at the same time. There was therefore no shortfall on redemption of the mortgage, as it appears there was sufficient from the proceeds of sale to repay the mortgage in full. If Mr and Mrs J needed to take out a loan and sell their car to raise additional funds, this must have been for purposes unrelated to redemption of the mortgage, and so I can't hold Santander responsible for this.

Putting things right

Overall, I think Santander has done enough to put things right by reimbursing the partial ERC plus interest, and offering compensation of £300. I am therefore not asking Santander to do anything further.

My final decision

My final decision is that Santander UK Plc must pay Mr and Mrs J compensation of £300. I make no other order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs J to accept or reject my decision before 5 February 2025.

Jan O'Leary
Ombudsman