

The complaint

Mr and Mrs T complain about the buy-to-let mortgage they have with Vida Bank Limited trading as Vida Homeloans. They are unhappy that they were charged an early repayment charge (ERC) when they redeemed their mortgage.

What happened

Mr and Mrs T took out their mortgage with Vida Homeloans in October 2020. They borrowed £532,875 over a term of 11 years on an interest only basis.

Mr and Mrs T redeemed the mortgage in September 2024 and were unhappy that they were charged the full ERC. They said they thought they would be charged 10% less as they were allowed to overpay on the mortgage by 10% without incurring an ERC.

Mr and Mrs T complained to Vida Homeloans who issued their final response on 29 August 2024. They explained that the 10% allowance for overpayments was only for when mortgage cases were live, and didn't apply when the mortgage was paid in full. They didn't uphold the complaint.

Mr and Mrs T brought the complaint to the Financial Ombudsman Service where it was looked at by one of our investigators who also didn't uphold the complaint. She said the 10% allowance didn't apply when the mortgage was redeemed in full and she said the ERC was charged in line with the terms and conditions of the mortgage.

Mr and Mrs T disagreed. They said the documentation that Vida Homeloans sent them wasn't clear. They said if it was clear that the overpayment conditions didn't apply in the case of total redemption then they would have contested it in the first place and would have made a payment prior to full repayment. They said it's misleading and would like the refund they requested – which was £1600 based on the 10% allowance.

They also said:

- They are not asking for the full ERC to be refunded, just the 10% for the overpayment portion.
- The investigator's assertion that overpayment is different to redeeming the mortgage is not supported in fact and there is no clear distinction in the documentation of the difference between both. Mr and Mrs T interpret from the documentation that redeeming the mortgage in advance of its due date is an overpayment and entitled to the reduced amount based on the allowance.
- Mr and Mrs T said just because the document is standard and widely used, it does not make it fit for purpose.

As Mr and Mrs T disagreed with the investigator, they asked for the complaint to be reviewed by an Ombudsman, so it's been passed to me to decide.

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 firstly taken a look at the mortgage offer which was from October 2020.

Under section 8, it states how much will be paid each year, for the five years of the early redemption charge period, should Mr and Mrs T redeem the mortgage in full. The mortgage offer shows that Mr and Mrs T would pay 5% if they redeemed the mortgage in year one, 4% in year two, and 3% between three and five years. Mr and Mrs T were charged 3% of the outstanding balance on the mortgage when they redeemed in September 2024.

Mr and Mrs T paid an ERC of £16,032.21 and they believe that they should be charged 10% less than this so they would like around £1600 refunded back to them. They said the terms of the mortgage offer contradict paragraph 8.1 of the terms and conditions and paragraph 9 of the approval letter (section 8 of the mortgage offer) they were sent in October 2020.

The buy-to-let conditions under section 8 flexible features says:

"8.1 overpayments

(a) if you can make overpayments this will be set out in your Offer.

(b) You can make overpayments by:

(i) increasing your monthly payment; or

(ii) cheque (we will specify who to make the cheque payment to); or

(iii) bank transfer to an account we specify.

(c) You can make overpayments at any time. Where overpayments are made during a period in which early repayment charges apply to a Loan you can make overpayments of up to 10% of the Loan Balance in any 12 months period without incurring an early repayment charge. You will be charged an early repayment charge for any overpayments made above this amount. Details of your early repayment charges and when they apply are set out in your Offer."

Mr and Mrs T believe the terms and conditions above allow them to make an overpayment of 10% without incurring an ERC and that this is included when they want to redeem the mortgage. But this isn't the case and I'll explain why.

The buy-to-let terms and conditions above make it clear that overpayments can be made to the mortgage up to 10% without incurring an ERC – that is correct. But this doesn't transfer to full redemption of the mortgage.

The mortgage offer under the early repayment section specifically says '*an early repayment charge will become payable if you repay your mortgage in full or in part before the end of Year 5*'.

An overpayment is exactly that – it's an amount that you overpay on the mortgage. A redemption is paying off the mortgage in its entirety because it's not needed anymore. I do not agree that these documents contradict each other, and I think they make it clear what Mr and Mrs T will be charged in each scenario.

Most products allow consumers to overpay a certain amount each month without incurring an ERC and in this instance it's 10% - which isn't unusual. This allows consumers to reduce their overall balance while the mortgage is still running. It's not intended to be used for when a mortgage is redeemed.

The mortgage offer explains when an ERC will be charged and I am not persuaded that this wasn't made clear.

Mr and Mrs T have said if they knew this, they would have made a payment prior to repayment of the mortgage. I can see that they requested a redemption statement on 21 July 2024 and it was sent out to them on 2 August 2024. This is where they noticed the full ERC being charged.

Vida Homeloans sent out their final response on the matter on 29 August 2024 not upholding the complaint. So although it was only one day, Mr and Mrs T could've made an

overpayment if they wanted to before the following month of September. Even so, they knew when they got the redemption statement that they were going to be charged the full ERC and they had the entire month of August to make an overpayment if they wanted to.

I know that Mr and Mrs T will be disappointed with my decision, but I am satisfied that Vida Homeloans charged the ERC in accordance with the terms and conditions of their mortgage.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T and Mrs T to accept or reject my decision before 21 April 2025.

Maria Drury
Ombudsman