DRN-5642166

The complaint

Mr R complains that Clydesdale Bank Plc trading as Virgin Money unfairly charged an early repayment charge (ERC) when he and his ex-wife repaid their mortgage.

What happened

Mr R and his ex-wife had an interest-only mortgage with Virgin Money. In 2021 they took a fixed interest rate product of 1.23% until December 2026. An ERC was payable if the mortgage was repaid in full during the fixed rate period.

In early 2024 Mr R and his ex-wife began divorce proceedings, as part of which Mr R says the mortgaged property had to be sold. He asked Virgin Money if he could transfer the mortgage to an outbuilding in the grounds of the mortgaged property. He had obtained planning permission to convert it into a home. But Virgin Money wouldn't agree to transfer the mortgage, because the property wasn't habitable.

In June 2024 Mr R made a complaint about the ERC, which was just over £10,000. He said it was unfair and disproportionate, particularly given his circumstances when he had no choice but to redeem the mortgage.

Virgin Money wouldn't waive the ERC. It apologised for the time it had taken to respond to Mr R's complaint and paid him £100 for that.

Mr R asked the Financial Ombudsman Service to look into the complaint. Our Investigator didn't think Virgin Money had done anything wrong. Mr R didn't accept that conclusion and asked for an Ombudsman's review. He still considered that the ERC was unfairly high, particularly when it was higher than the amount it would have cost him to continue paying the mortgage for the remainder of the fixed interest rate period.

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 was sorry to read about the difficult time Mr R has had recently. I have to tell him however that I've come to the same overall conclusion as our Investigator did.

The mortgage offer illustration Virgin Money issued to Mr R and his ex-wife in September 2021 said, at section 7:

> "**Early repayment charge:**
> An early repayment charge applies to this loan until 1 December 2026 and will be charged if you do any of the following before this date:
> - repay the loan in full
>
> […]

The early repayment charge is calculated as 3.50% of the outstanding loan balance at the date the loan is either repaid or transferred to a new mortgage product. The table below provides a cash example of the amount you could pay:

Period	Basis of Charge	Early Repayment Charge (Cash Examples)
before 1 December 2026	3.50% of the outstanding loan amount	£10,110.82

The cash example(s) given in the table assume that the full loan is repaid, all repayments due on the loan, including fees and any initial interest are made on time and that no overpayments have been made or payment holidays taken.

[…]

The maximum charge you could pay is £10,110.82, plus a mortgage exit fee which is £50.00."

I'm satisfied that the ERC, the maximum cost of it, and the circumstances in which it would be payable, were all set out clearly.

Mr R has pointed out that when he came to redeem the mortgage there were fewer than two years left on the fixed interest rate, and the ERC cost more than the interest he would have paid in the remaining fixed rate period. There are, however, costs to a lender when a mortgage is repaid early. It's common practice for lenders to include provision in mortgage contracts to recover those costs, in the form of an ERC. It's a regulatory requirement that an ERC be a reasonable pre-estimate of the cost to the lender of settling the mortgage early. That cost can be calculated across a tranche of mortgages rather than individually.

This means that Virgin Money can set an ERC based not on the actual cost to it of Mr R and his ex-wife redeeming their mortgage early, but on a reasonable pre-estimate of the costs of early termination of a group of mortgages of a similar type. So it's not unreasonable for the ERC it applied to Mr R's and his ex-wife's mortgage when they came to repay it to amount to more than the cost of the remaining interest on the fixed rate on that particular mortgage.

Virgin Money can't know in advance whether or not an individual borrower will end their fixed rate early, and if so when. So it can't estimate in advance the costs of ending a particular mortgage early. But it can estimate how many borrowers, on average, will do so – and apply those costs across a group of mortgages.

Virgin Money has sent us information about how its pre-estimate of loss on mortgages of the type Mr R and his ex-wife held was calculated. In summary, the information shows that there's a cost to Virgin Money in offering fixed rate mortgages, and it incurs a cost in unwinding its funding arrangements when a mortgage is repaid before the end of the fixed rate period. It forecasts those costs and allocates them across its mortgages in the expectation that a certain proportion will end before the fixed rate period ends.

This is a reasonable way of setting an ERC. It's in line with the regulator's rules, which allow a pre-estimate to be used, and which allow that pre-estimate to be set across a portfolio of mortgages rather than on an individual basis. The price of a mortgage, which includes both the interest rate and the ERC, is set at a level that allows the lender to recover its costs – and the portfolio approach is a reasonable one to take.

I've noted what Mr R has said about having had no choice but to redeem the mortgage as part of his divorce settlement and about Virgin Money's refusal to transfer the mortgage to the outbuilding he planned to convert. But Virgin Money was entitled to decide whether or not to lend against the outbuilding and I can't reasonably conclude that its decision not to do so was unfair, given the condition of the building. I'm also satisfied that it was entitled to charge the ERC even when incurred as part of a divorce, however difficult that was for Mr R.

In all the circumstances, I don't find that I can fairly require Virgin Money to refund all or part of the ERC. It has paid Mr R £100 for the inconvenience caused by the time it took to respond to his complaint, and I think that was fair.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 15 October 2025.

Janet Millington
Ombudsman