

The complaint

A company, which I'll refer to as T, complains that it was mis-sold a fixed rate commercial loan by Handelsbanken plc.

What happened

In September 2023, T took out a £1,425,000 fixed rate loan from Handelsbanken, secured on several properties. The loan was for a five year term and the monthly payments were interest-only.

In 2024, T made two partial early repayments – of £100,000 in March and of £210,000 in September. T was content to pay the prepayment fees that it expected. However, for the second of these early repayments, Handelsbanken also charged a break cost of £9,422.

T complained to the bank about the break cost. Handelsbanken said the agreed terms of the loan had confirmed that break costs might apply. However, the bank refunded half the £9,422 break cost and, as it was aware that T may seek to sell another property, offered to cover half the break cost of the next reduction of the loan.

T wasn't satisfied with the bank's response and referred its complaint to us.

Having looked at the evidence, our investigator recommended that the bank should put T in the position that it would have been in if the loan interest rate had been variable from the outset. This included refunding the entire break cost paid and providing a replacement variable rate loan, reimbursing any amounts that wouldn't have been due. He gave these reasons, in summary:

- The commercial loan wasn't a regulated product, nor was Handelsbanken acting in an advisory capacity to T. So there was no need for the bank to assess the suitability of the loan for T.
- However, the investigator would expect Handelsbanken to have presented T with clear information about the loan so that its directors could reach their own informed decision about what was best for T. In particular, T should have been given enough information about the potential scale of break costs associated with fixed rate lending.
- While there were references to break costs in the loan agreement, the investigator didn't think T was given sufficient information during the sale of the loan to realise that break costs might apply or might be significant. The indicative quote given to T a matter of days before the signing of the loan agreement was completely silent on break costs.
- The break cost risk was not clearly delineated or made prominent in the agreement or pre-sale information. Good industry practice at the time of the sale – as demonstrated by the Lending Standards Board's *Standards of Lending Practice for business customers* ("the LSB Standards") – would be to make clear the risk of

substantial break costs.

- One of T's directors said she asked several times about what costs were involved with early repayment, and break costs were never mentioned. The investigator, having looked at the evidence of other communications between the parties at the time, was minded to find her testimony reliable, as it demonstrated her clear and accurate understanding of the other early repayment fees that would apply.
- Had Handelsbanken made the possibility of break costs clear to T, the investigator thought it was most likely that T would have opted instead for a variable rate loan. He didn't think the directors' concerns about possible future interest rate rises would have outweighed the risk of substantial break costs. And T knew, from the nature of its business, that it always faced the possibility that it might sell some of the secured property and would therefore be required to make large early repayments towards the loan.

Handelsbanken accepted the investigator's points about the actual break costs not being made substantially clear to the customer, and the bank was therefore willing to honour the recommendation about the breakage fee. But it didn't accept the need for the loan to be restructured. The bank made the following points, in summary:

- Refunding the breakage costs would put the customer in the position as if those costs had never existed. At that point, the customer would have been put back in the position they would have been in had the breakage costs been made clearer at the outset.
- There's no way of ascertaining that the customer would have refused the fixed rate product if they had been made aware of the breakage costs, or that they would have received a favourable rate elsewhere without such costs being incurred.
- Interest rates can go up or down. The customer has benefited from the certainty of a fixed rate and has been protected from the payments going up had interest rates increased. Restructuring to a variable rate would amount to providing the customer with the best scenario and most favourable terms, without factoring in any risk. The bank didn't feel this was a fair judgment.

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 reached the same conclusions as the investigator, and for largely the same reasons.

Handelsbanken said the terms and conditions of the loan agreement stipulate that break costs apply, and there was some responsibility on the customer to read all the documentation before accepting the agreement. I've looked carefully at all the pre-sale information and the agreement and I find that the sections referring to break costs were obscurely worded and that no attempt was made to draw attention to the particular risks of fixed rate lending in a changing interest rate environment.

Having seen examples of fixed rate loan sales elsewhere, and having looked at the LSB Standards current at the time, I consider that the information provided about the loan in this complaint didn't meet the standards of good industry practice.

To enable the borrower to make an informed choice, the documentation should in my view have made clear, in language that could be understood by a customer with no specialist knowledge in the field of hedging products (or 'hedge-like' products), that if interest rates fell generally then prepayments might attract substantial additional charges. There was nothing like this in the information provided to T. I further note that there were no indicative figures provided for the potential scale of the break costs that might be faced under different interest rate conditions.

I therefore agree with the investigator that Handelsbanken didn't give T enough information to make an informed decision about the loan. I also agree – for the same reasons given by the investigator – that if T had been given the appropriate information, then it's likely that the company would have chosen to take the loan on a variable rate. It would therefore be a fair outcome for Handelsbanken to put T into the position that it would have been in if the company had taken a variable rate loan from the outset at the rate offered by the bank in 2023.

I don't accept that refunding the break cost already paid (even with a promise not to apply the break costs in full when T makes the next early capital repayment) would put T back in the position it would have been in had it been fully informed about the break cost risk. I say that because T would remain liable for break costs if it chose to move to a variable rate or to move its lending elsewhere, which in my view would be unfair. I note that Handelsbanken quoted a break cost of over £54,000 to repay the loan in full in December 2024.

Moreover, leaving the fixed rate in place would simply not reflect what I believe would have happened had Handelsbanken given T the appropriate information about the break cost. I can't be certain what would have happened, and so to determine a fair outcome I need to decide what's most likely to have happened. If T's directors had known that in order to sell some of the company's properties, T would in some circumstances have to pay a substantial and unpredictable additional charge, then I think it likely that they wouldn't have chosen the fixed rate. Given the nature of their business, I think the directors would have seen the potential break cost as too much of a hazard. As a variable rate was also on offer from Handelsbanken, I think it likely that they would have chosen that.

I don't agree that removing the fixed rate risk will unfairly advantage T. For the reasons I give above, it's my view that if the bank had acted fairly at the time of the loan sale, T wouldn't have chosen to take that risk. I also note that for about two years of the loan, the variable rate would have been slightly higher than the fixed rate and the payments would therefore have been higher. That will be taken into account in the redress calculation, which compares the total of payments made under the original and replacement loans, thereby reducing the redress payable. T will therefore not benefit unfairly from the fixed rate being lower than the variable rate for a period. I'm satisfied that replacing the fixed rate loan with a variable rate loan from the outset is a fair and reasonable outcome of this complaint.

Putting things right

Handelsbanken should put T in the position that it would have been in if it had taken its loan at a variable rate, rather than the original fixed rate. This should reflect the following practical considerations:

- The replacement loan should have the original start date and the original maturity date.
- The interest rate should be the Bank of England base rate plus 2.2%.
- The bank should refund the break cost already paid by T, minus the £4,711 already

refunded.

- If the total of payments made by T on the existing loan to date is greater than the total of payments that would have been due on the replacement loan to date, then the bank should reimburse the difference. This calculation should take account of the changes in loan balance resulting from the capital prepayments/overpayments made.
- The bank should add compensatory interest to the sums refunded and reimbursed, at 8% simple per annum from the date the cost arose to the date of settlement.
- No further break costs should be applied, and there should be no new arrangement fee for setting up the replacement loan.
- This decision doesn't affect any pre-payment fees, early repayment administration fees or security discharge fees as specified in the loan terms.

My final decision

I uphold this complaint and I require Handelsbanken plc to carry out the steps specified above.

Under the rules of the Financial Ombudsman Service, I'm required to ask T to accept or reject my decision before 16 February 2026.

Colin Brown
Ombudsman