

The complaint

S, a limited company, complains that Shawbrook Bank Limited unfairly applied an early repayment charge (ERC) when it repaid a buy to let mortgage.

S is represented by its director, who I'll refer to as Mr V. Mr V asks that Shawbrook refunds or waives the ERC.

What happened

S took out a buy to let mortgage with Shawbrook in 2022 via a broker. It took out a three-year fixed interest rate product. S recently repaid the mortgage and found out an ERC applies for the first five years.

Mr V says S took out a number of buy to let mortgages with Shawbrook in 2022 via a broker. Some of these mortgages had three-year fixed interest rate products and an ERC that applies for five years.

Mr V says this is unfair and he wasn't made aware that the ERC will continue to apply for two years after the fixed rate expired. He said Shawbrook should refund or waive these ERCs.

Our investigator said the ERC and when it was payable was set out in the mortgage offer. He said it was for the broker to explain the terms of the mortgage.

Mr V didn't agree. He said S had taken out about 25 mortgages with Shawbrook in 2022, most of which had five-year fixed interest rates. He said it was reasonable to expect the ERC to align with the fixed period. He said Shawbrook should have clearly flagged that the small number of mortgages with three-year fixed interest rates had a five-year ERC overhang. He says it didn't do this and should fairly waive or refund the ERCs beyond the three-year 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.

Letting property is a business. Shawbrook is entitled to expect S to manage the mortgages accordingly. Buy to let mortgages aren't regulated, so the rules on mortgage regulation don't apply in the same way as for regulated mortgages.

That said, I'd expect Shawbrook to provide information which is clear and correct.

The mortgage offer said the fixed interest rate applied for the first three years of the mortgage. After this a variable interest rate applied. It said an ERC (of 3%) would apply if more than 10% of the outstanding balance was repaid in the first five years.

The mortgage offer sets out the lending terms in the form of a table. The left column has the heading "Early Repayment Charges". The right hand column sets out the terms of the ERC. I

think the ERC – the amount and when it applies – is set out clearly in the mortgage offer. There's no requirement for Shawbrook to provide a cash example. I note that the cover letter sent with the mortgage offer drew S's attention to the ERC.

Mr V says S took out about 25 mortgages with Shawbrook in 2022. Some of the properties were refinanced and some were purchased. S's directors had to review a large number of documents. But that doesn't change the outcome of the complaint. Either the mortgage offer issued by Shawbrook was clear about when the ERC applied or it was not.

As I said, this is an unregulated mortgage taken out in relation to a business. A broker arranged the mortgage for S. Shawbrook didn't recommend the mortgage or provide advice to S. It simply had to provide clear information so that S's directors could decide whether to take out the mortgage. I think it did this.

Mr V says the ERC overhang is unusual. He says it looks punitive rather than a genuine pre-estimate of loss. This is an unregulated mortgage. The regulatory requirement that the ERC is a reasonable pre-estimate of the lenders costs of the loan being repaid early doesn't apply. And the provisions of the consumer duty referred to by Mr V don't apply either.

While the ERC wasn't hidden or unclear, it could still be unfair. I don't think I can fairly find that's the case. S can repay the mortgages after five years without paying an ERC. It can repay them earlier by paying the ERC. I appreciate that this is a cost S's directors would prefer to avoid. But I don't think the amount of the ERC (3% of the balance) is so unreasonably large as to prevent S disposing of properties or refinancing within the first five years if it wants to do so.

Ultimately it was for S's directors to review the terms of the financing and decide whether to proceed. I appreciate that S's directors didn't expect the ERC to apply after the fixed interest rate ended. But I can't fairly find that this wasn't set out clearly in the mortgage offer.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask S to accept or reject my decision before 12 December 2025.

Ruth Stevenson
Ombudsman