

The complaint

Mrs and Mr R's complaint is about a mortgage they held until recently with Clydesdale Bank Plc trading as Virgin Money (VM).

The essence of the complaint is that VM imposed an early repayment charge (ERC) when they repaid the mortgage a few weeks before the end of the fixed interest rate period.

What happened

The broad circumstances of this complaint are known to both parties. I'm also aware that the investigator issued a detailed response to the complaint, a copy of which has been sent to both parties, and so I don't need to repeat all the details here. Our decisions are published, and it's important that I don't include any information that might result in Mrs and Mr R being identified.

Instead I'll give a brief summary of the key events, rounding the figures, and then focus on giving the reasons for my decision. If I don't mention something, it won't be because I've ignored it. It'll be because I didn't think it was material to the outcome of the complaint.

The mortgage started in 2020; it was arranged via a third-party intermediary, whose responsibility it was to ensure the mortgage was suitable for Mrs and Mr R, and that they understood the terms they were agreeing to. The mortgage was on a fixed rate product which was due to expire on 1 May 2025.

In early 2025, Mrs and Mr R were moving house, and completion was scheduled to take place during March 2025. Mrs and Mr R called VM after receiving a redemption statement which included an ERC of around £6,000. They thought it was unfair of VM to apply the full ERC (4.5% of the closing balance) so close to the end of the fixed rate period, when other lenders they'd used opted for a sliding scale ERC that reduced towards the end of the period.

VM put the matter to an appeal, and came back a few days later to say the ERC could be waived if completion took place after 14 April 2025. However, Mrs and Mr R didn't want to do this as it would have subjected others in the house-buying chain to higher rates of Stamp Duty Land Tax (SDLT).

Mrs and Mr R complained that seeking to apply the entire ERC so close to the end of the original five-year deal was unfair. VM rejected the complaint and when it came to us, our investigator didn't think VM had done anything wrong.

Mrs and Mr R have asked for the case to be reviewed by an ombudsman.

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.

Mrs and Mr R say their mortgage documentation from 2020 failed to include realistic scenarios such as redemption so close to the end of the charging period. Their mortgage offer may not have included the precise scenario they would face in 2025, but it did set out the ERC, and the circumstances in which it might be charged, in a manner consistent with VM's regulatory obligations at the time. It was then up to Mrs and Mr R's intermediary to ensure they understood the implications of the ERC clause, and how and when they might be required to pay it. In making that point, I imply no criticism of the intermediary, and none need be inferred.

That brings me to the fairness of the ERC amount, given the mortgage was being redeemed so close to the expiry of the fixed rate period.

The rules we operate under say that in doing that I must take into account, amongst other things, the relevant rules and regulations. In this case, that is the Financial Conduct Authority's Mortgages and Home Finance: Conduct of Business sourcebook (MCOB). MCOB includes provisions about ERCs. In summary, they say that an ERC must be able to be expressed as a cash value, and must be a reasonable pre-estimate of the costs resulting from early termination of the mortgage. But a lender can choose how it calculates an ERC, and can calculate the same level of ERC across a group of mortgages of similar type, rather than for individual loans. VM is entitled to set an ERC based not on the actual cost to it of Mrs and Mr R ending their own mortgage early, but on a reasonable pre-estimate of the costs of early termination of a group of mortgages of similar type.

Lenders generally raise money to offer preferential rates for their mortgage customers on the wholesale money markets. There's a cost to that, and it's generally fixed in advance. But the lender expects to receive a return to outweigh those costs. If a mortgage ends early, the lender doesn't get back all the returns it expected, and so doesn't make back the costs in raising the funds to offer that preferential rate.

It's complex and onerous for lenders to calculate individual losses as and when individual customers decide to terminate their contracts early. And it isn't possible to estimate, for any given individual, when or if they might do so. So VM is allowed to project how many customers, on average, are likely to terminate early and, on average, at what point they're likely to do so, and to apportion that cost across the mortgages in the group. For some individual mortgages that will end up being an over-calculation, and for others it will be an under-calculation. But that's allowed; VM doesn't have to refund the difference, but equally it doesn't tell a consumer to pay the difference if it goes the other way.

The information from VM shows that it takes into account a number of factors when estimating the cost of a fixed rate mortgage being repaid. It has provided a breakdown of the figures it used and an explanation for the calculations and estimates it has made. It shows that the ERC reflects its costs of setting up and servicing the mortgage, the cost of the capital it has to set aside, the cost of funding the fixed rate, the cost of financial instruments that could be used to protect its position (and unwinding those) and its future losses. I've looked carefully at what VM has said and I consider it is a fair way to calculate the ERC.

As for the proximity of redemption to the product end date, some lenders apply a tapered ERC, with the percentage reducing year by year. Others apply a single percentage charge over the whole period of the product. Both are permitted, provided that the resulting calculation is fair, which I've found it to be for the reasons set out above.

My final decision

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

My final decision concludes this service's consideration of this complaint, which means I'll not be engaging in any further discussion of the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs R to accept or reject my decision before 16 March 2026.

Jeff Parrington

Ombudsman