

The complaint

Mr H complains that Santander UK Plc overcharged him when he paid off his personal loan early.

What happened

Mr H took out a personal loan with Santander for £25,000 starting in January 2021. The loan was for 60 months, with fixed monthly payments of £448.77.

Mr H became ill in July 2023 and consequently chose to repay the loan early. He said he logged into his account on 10 September and the outstanding balance including interest was £12,575.71. Mr H said he made a payment for that amount on the understanding that the loan would be closed. Mr H said he logged into his account on 14 September to ensure the payment had been received and the loan was closed. He said to his surprise he noted the amount transferred had not been offset against the outstanding loan balance and therefore the loan account had not been closed but he said he could tell the funds had been received. Mr H said he could also see that Santander was continuing to charge daily interest and that the amount required to settle the loan was an additional £59.75. Mr H complained to Santander.

In its final response letter Santander said the redemption figures Mr H was provided with were accurate. It said the settlement provided on 11 September was correct. It explained that Early Settlement regulations allow the settlement to be deferred for an extra month, which created an additional amount to be paid, equivalent to 30 days interest. It said this is included automatically as part of the settlement figure when it is produced.

Mr H disagreed and brought his complaint to this service. He said Santander had overcharged him for the loan. He said there is no basis for the additional charges levied. Mr H said Santander had not provided a clear statement of account despite multiple requests and the lack of transparency in all aspects of the loan has been alarming for a large regulated financial institution.

Our investigator concluded that the calculation for settlement carried out by Santander was correct based on the information it provided. Mr H wasn't satisfied and asked for a decision from an ombudsman. He said the investigator's view was not backed up with any evidence, the primary one being a recalculation of the loan interest due. Mr H made some additional comments to which I have responded below where appropriate.

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 realise this will come as a disappointment to Mr H but having done so I won't be asking Santander to do anything further.

I'm sorry to hear that Mr H has been unwell. I can see he has made numerous points in support of his complaint. I know that I've summarised it in far less detail and in my own words. I'm not going to respond to every single point made by Mr H. No discourtesy is meant by this. Instead, I've focussed on what I think is the crux of the complaint. Our rules allow me to do this. This simply reflects the informal nature of our service. If there's something I've not mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to comment on every individual point to be able to reach what I think is the right outcome.

Mr H has outlined several complaint points which I've addressed as outlined in his correspondence to us.

1 & 2: Mr H believes he has been overcharged in the repayment of the loan. He said an early redemption charge has been levied which he said he was told would not be charged when he took out the loan. He said he hasn't been provided with a breakdown on how that charge was calculated.

The Consumer Credit (Early Settlement) Regulations 2004 (CCESR) tells a lender how to calculate the settlement figure when a customer requests to end a loan early. As our investigator has explained early repayment calculation isn't a straightforward calculation and it uses a set formula which is detailed in the CCESR.

The CCESR says:

Settlement date

5. *The settlement date for calculation of the rebate shall be taken to be—*
(a) where the debtor has given notice under section 94 of the Act with a view to discharging his indebtedness under the agreement, the date falling 28 days after the date on which the notice was received by the creditor...;

Santander is also able to defer the settlement:

Deferment of settlement date

6. *Where the agreement provides for the credit to be repaid over, or at the end of, a period which is more than a year after the relevant date, the settlement date for calculation of the rebate may be deferred by—*

(a) one month, or

(b) where the length of a month's deferment would be more or less than 30 days and the creditor so elects, 30 days.

This allows for 58 days interest as Santander explained in its letter dated 16 October 2023.

I've seen the settlement figures Santander has provided and I've not seen any evidence to doubt they've been incorrectly calculated. Mr H has asked for a recalculation of the loan as he believes he's been charged too much. He has kindly sent his own spreadsheet of calculations. We are an informal resolution service, we don't provide an auditing service or carry out a forensic analysis of loan records. But I've looked at the transaction history and interest charged, as well as the number of interest days, and there's nothing on there that appears unusual or incorrect. Mr H is free to instruct an independent qualified professional to audit his account, but this would be at his expense – if errors were found to his detriment, he could complain about them and his costs in discovering them could be taken into account in putting matters right. But as things stand, I'm not persuaded that Santander has acted unfairly in its calculation.

When Mr H took out his loan he signed an agreement accepting its terms and conditions. I've seen a copy of the agreement. On page 2 it says under early settlement:

8a) you have a right to settle this agreement in full by requesting a settlement statement by paying all amounts owing at any time. You may also settle this agreement in part at any time. The relevant details will be sent to you at the appropriate time.

8b) you may repay your loan early by first making a settlement request. We will calculate your settlement date and the amount you must repay and send you a settlement statement. We will charge interest up to the date of settlement. We may make an additional charge on settlement of an extra 30 days interest.

I've also seen a copy of the Terms and Conditions on the Santander website. It says:

"7. Can you repay early? You have a legal right to repay your loan (or part of your loan) early under Section 94 of the Consumer Credit Act 1974. You can do this by writing to us at ..., or calling us on ... When you contact us, ask for an early settlement statement and we'll send you a statement which tells you how much you need to pay. By law, we have to use a specific formula to work out the amount you need to pay. Repaying your entire loan early - We'll calculate the amount of interest you need to pay us assuming that you repay your loan 28 days after you contact us. If your loan is more than 12 months long, we might also charge an extra 30 days of interest."

It's not clear to me what was said about early repayment when Mr H took out the loan. But I'm satisfied the terms and conditions clearly state that customer should request a settlement figure and that interest will be charged.

3: Mr H has said he wasn't provided with sufficient documentation to monitor the loan repayments. It does appear that on a day to day basis Mr H had online access to his account and statements.

4: Mr H has said there are multiple inconsistencies in the correspondence provided by Santander. I can see that Santander sent two settlement figures, one on 11 September and the second on 4 October. As Santander explained interest is charged daily so the settlement figure would change.

5: Mr H has said the loan was redeemed based on the outstanding balance on online banking which should reflect the actual current balance that remains outstanding. He said this is what he initially repaid. He said Santander are saying their online system balance is incorrect and an additional charge has to be paid. He queried how Santander can justify providing false information to its customers.

Santander has said that when a customer obtains his figures via online banking, there is a message which states the following, next to the settlement amount:

"The estimated amount you'd pay if you wanted to settle, or pay off, your loan. Please call us for an exact figure if you'd like to pay off your loan."

It said this is why Mr H was not made aware of the interest calculation which is generated 28 days ahead prior to closure.

As I've explained above the terms and conditions allow for early redemption charges and I think it's likely the above message was visible to Mr H online in order to draw his attention to the fact he would need to contact Santander for an exact figure.

6. Mr H said Santander did not respond timely to his queries and in many instances didn't answer the questions posed. He said Santander made a straightforward exercise extremely stressful. I'm sorry to hear Mr H found the process stressful. I can understand his frustration. Santander sent its response letter on 16 October 2023 which was about four to five weeks after Mr H requested to end the loan which is within the time frame I would expect.

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 H to accept or reject my decision before 30 July 2024.

Maxine Sutton
Ombudsman