

complaint

Mr and Mrs L complain that the early repayment charge ('ERC') on their mortgage with Santander UK Plc ('Santander') is unfair.

background

In 2005 Mr and Mrs L – through their brokers - first took out a mortgage with Santander (then Abbey). The interest rate was fixed till October 2010 and an ERC would apply if Mr and Mrs L redeemed the mortgage during that period. They later took out further advances, which were added to the original mortgage.

In June 2010 Mr and Mrs L converted their total mortgage to a new repayment product with a fixed interest rate of 4.24% till August 2014. If they redeemed all or part of their mortgage within that period, Santander would apply 4% ERC. The ERC was clearly set out in section 10 of the mortgage offer – but Mr and Mrs L complain that the operation of the ERC as it is is unfair, it is not a reasonable pre-estimate of Santander's costs, nor does it decline over the four-year fixed period (particularly in the final year).

They now want to redeem the mortgage (before August 2014) and obtain a more favourable interest rate, but are prevented from doing so by the high cost of the ERC (estimated in December 2013 to be in the region of £7,000, but now likely to be less as the capital has reduced in the meantime).

The adjudicator, who has provided details of Santander's calculations in assessing the ERC, did not recommend that the complaint be upheld.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. I have taken careful note of the further representations made by Mr and Mrs L in April 2014 since the adjudicator's letter.

Mr and Mrs L accept that the ERC (with examples on a yearly basis from 2011-2013) was clearly set out in the mortgage offer, so they were fully aware of its operation. However, they complain that the ERC is unfair because Santander has not shown that it is a reasonable pre-estimate of its costs. I do not agree. Santander has provided the information set out in the adjudicator's letter to explain its calculation of the ERC. However, I do not think it is necessary for it to provide any further information (whether or not it is available), because the ERC was a contractual term of the mortgage offer and accepted by Mr and Mrs L in taking up the mortgage. In my view it is not significant that Santander did not provide an example of the ERC in the final year of the fixed term; the three examples it gave (for 2011-2013) were by way of illustration only.

I note that Mr and Mrs L have not redeemed the mortgage in the meantime – but this fact is not material to my decision.

my final decision

For these reasons I do not uphold this complaint.

Charles Sweet
ombudsman