

The complaint

Mr D complains that Digital Moneybox Limited applied a penalty when he made a withdrawal from his Lifetime ISA in the first twelve months, to buy his first home. He said Moneybox's advertising was misleading, and because of that he'd lost money.

What happened

Mr D said he'd been saving for some years for a property purchase, through a Help to Buy ISA with a different provider. He then opened a Lifetime ISA ("LISA") with Moneybox, and transferred his ISA money there. Mr D said he'd read up as much as he could about the LISA product before he did this.

Mr D then committed to a property purchase. When he asked Moneybox to set up a withdrawal from his LISA to help pay for that, he discovered there was a penalty for making a withdrawal in the first 12 months, although he was using the money to buy his first home.

Mr D accepted that the full terms of the account provided for a penalty to be applied in these circumstances. But he said both the Moneybox and government websites say that there's a penalty if you withdraw within the first 12 months for a reason other than buying your first home (or other permitted reasons). So Mr D said this contradicted what was said in the full terms and conditions of the account, and that isn't fair.

Mr D said he didn't just lose the government bonus from the LISA, he got back less than he put in. But he said he didn't have a choice, he couldn't delay the purchase of his house. Mr D wanted Moneybox to pay the £3,457 that he missed out on, due to a combination of withdrawal charges and losing the government bonus.

Moneybox didn't think it had made a mistake. It said it sent Mr D a welcome pack and key features document when he first opened his account, which explained in a number of places that his account must be open for 12 months from when the first payment in was made, before he could withdraw without penalty. Moneybox said the LISA is a government product, the rules are set by HM Revenue and Customs. Moneybox said it had followed those rules.

Moneybox said the screenshot Mr D sent it, from its own website, was just to compare two different products, the LISA and the Help to Buy ISA. It didn't cover the full terms of each.

Moneybox thought it had explained the full terms of the LISA to Mr D through the app, when he registered for the LISA. Moneybox said Mr D had to click to say he'd understood these terms, as part of this application. And it said these terms were further explained when it provided him with the welcome pack.

Moneybox said it understood this had been stressful for Mr D, but it couldn't waive the penalty for him.

Our investigator didn't think this complaint should be upheld. She thought that the terms of this product were clear, and she couldn't see the account had been mis-sold.

Mr D didn't agree. He said what we were doing didn't protect new customers. He thought Moneybox was using tricks to conceal important terms and conditions. Mr D said that Moneybox couldn't advertise one thing but provide another, that was misleading. He still thought he'd been mis-sold. Because no agreement was reached, this case then came to me for a final decision.

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 overall conclusion on this complaint as our investigator.

I understand that Mr D feels the advertising of the LISA he took out was misleading. He sent Moneybox a copy of one of its own advertising pages, which is intended to compare this product, the LISA, with a Help to Buy ISA. That doesn't clearly explain that any withdrawal within the first 12 months will be subject to a penalty. So Mr D says he was misled.

But Moneybox says this page was only ever intended to provide a comparison between two different sorts of savings accounts. And it has pointed to a number of places where Mr D was told that the LISA must be open for at least 12 months before the money in it could be used to buy a first home.

In particular, Moneybox showed us, and Mr D, a page from the application process for this account, which reads as follows –

Important Lifetime ISA information

You will pay a government penalty of 25% of any amount you withdraw unless you've had the account open for 12 months and are using the money towards buying your first home (up to £450,000 in value) or you're aged 60 or over. This means you could get back less than you put in.

Directly under this paragraph, to proceed with this application, Mr D had to click “I understand”.

So, although I know the page Mr D referred to doesn't set out all the terms of his account, I do think Mr D was alerted to the relevant term of this account before he registered for the LISA.

Mr D was then sent a welcome pack which provided full details of the terms of the LISA. The pack included a summary and FAQs, which repeatedly explained that any withdrawal to buy a first home in the first 12 months would be subject to a 25% penalty. And I think it's also important to note that Mr D did still have the right to cancel this application at this stage.

The conditions of the LISA can be complicated, but Moneybox doesn't set these terms. They are set by government and following them is a condition of receiving the government bonus. And, for all the above reasons, I think Moneybox did do enough to draw to Mr D's attention the terms of this account before he opened the account, as well as during the period when he had the right to withdraw from the agreement if this account wasn't suitable for him.

I'm sorry to hear about the impact this penalty had on Mr D, and that he's faced other difficulties with his recent house purchase too. But I don't think what has gone wrong here is

Moneybox's fault. So, although I know Mr D will be disappointed, I don't think this complaint should be upheld.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 28 November 2023.

Esther Absalom-Gough
Ombudsman