

The complaint

Mr and Mrs H complain that Aldermore Bank Plc unfairly applied an early repayment charge (ERC) when they repaid their buy-to-let mortgage.

What happened

Mr and Mrs C had a buy-to-let mortgage with Aldermore. In 2021 they took out a fixed interest rate product. It had an ERC of 2% of the amount paid or £2,550.28 if the mortgage was repaid on or before 31 October 2023.

On 24 July 2023, Mr and Mrs H repaid the mortgage. Aldermore applied an ERC in line with the offer.

Mr and Mrs H complain that it was unfair for Aldermore to apply the ERC. They said that they only had around three months until the ERC expired. Aldermore would only be entitled to £1,000 interest during that period, which they were prepared to pay. So the ERC is disproportionate and has resulted in an unfair profit for Aldermore.

The investigator did not think the complaint should be upheld. Mr and Mrs H did not accept what the investigator said.

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.

This was a buy-to-let mortgage. Mr and Mrs H were not consumers – they were running a business. The mortgage offer sets out clearly and prominently that an ERC would be applied if the mortgage was repaid before 31 October 2023. They accepted the terms of the offer, including the ERC. As the mortgage was repaid before 31 October 2023, Aldermore was entitled under the contract to apply the ERC. That was reasonable.

Buy-to-let mortgages are not regulated. But residential consumer mortgages are. The rules that govern those mortgages say that lenders are entitled to apply an early repayment charge as long as it is a reasonable pre-estimate of the cost to it of the mortgage being repaid early. It can be calculated across the same types of mortgage – it does not have to calculate the ERC individually for every mortgage.

So if I take those rules as good practice (and I think it would be difficult for me to say that buy-to-let mortgages should be subject to greater protection than consumer mortgages) I don't consider that the ERC has been applied unfairly. I say that because the potential losses of the mortgage being repaid early are not limited to just the interest that the lender has lost out on – although that may be one factor. There are likely to be other costs relating to how the mortgage was funded in the first place, the potential costs of breaking the arrangements it had to fund the mortgage and the costs in setting up and administering the mortgage. So I am not persuaded that Aldermore's loss was as straightforward as Mr and Mrs H think.

Nevertheless, there was no requirement for Aldermore to calculate the amount it has lost individually on Mr and Mrs H's mortgage. Rather it estimated what its loss might be if the mortgage was repaid early when the mortgage was taken out across a range of mortgages. The percentage figure is not unusual or high in my experience. The actual losses to Aldermore might be higher or lower than the amount of the ERC. But it was only required to be an estimate. Based on the information available to me doesn't seem unfair.

Overall, Aldermore has acted in line with the terms of the contract that Mr and Mrs H accepted. I can see no basis to say that the ERC has been applied unfairly or unreasonably. There was no requirement for Aldermore to accept a different amount.

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 and Mrs H to accept or reject my decision before 18 April 2024.

Ken Rose
Ombudsman