

The complaint

Mr M is unhappy with how Moneybarn No. 1 Limited, trading as Moneybarn, dealt with two lump sums he paid off a finance agreement with them.

What happened

Mr M (who was known by another name at the time) took out a conditional sale agreement with Moneybarn in March 2017. The amount of credit was £16,000; with repayments of £500.16 a month over 5 years. In May 2019 he paid two lump sums - £3,400 and £4,540 – towards his agreement, and he expected these to reduce his monthly repayments. But Moneybarn reduced the remaining term of the agreement and the monthly repayments remained the same. Mr M is now experiencing financial difficulties when trying to maintain these monthly repayments.

Mr M has complained that Moneybarn have used these lump sums to reduce the overall term of the agreement and haven't used them to reduce his monthly repayment. He's also unhappy that Moneybarn wouldn't let him pay an additional lump sum repayment using his wife's credit card.

Moneybarn said that they always use lump sum repayments (which they refer to as Partial Early Settlements or PES) to reduce the term, not the monthly repayments. And they've also said that, as a responsible lender, they don't accept payments by credit card. This is because it'd mean Mr M would be paying further interest, on top of the interest he'd paying under his agreement with them. Mr M wasn't happy with this response and brought his complaint to the Financial Ombudsman Service.

Our investigator said the terms of the agreement Mr M signed said he had to notify Moneybarn before making a PES, and he didn't do this. So she thought Moneybarn had acted reasonably by using the PES Mr M made to reduce the term – without any prior conversation with Mr M, Moneybarn wouldn't have been aware that he wanted to reduce the payments.

The investigator also said that Moneybarn have policies and procedures in place that don't allow customers to repay agreements using a credit card. She said this was something we couldn't comment on, and it was a matter for Moneybarn's regulators – the Financial Conduct Authority (FCA).

Mr M didn't agree with the investigator and has asked for an ombudsman to make 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.

Having done so, I have reached the same overall conclusions as the investigator, and for broadly the same reasons. I can understand this is likely to come as a disappointment to Mr M, but I hope my findings go some way in explaining why I've reached this decision. I've also focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

When a borrower pays off part of a finance agreement, this payment could be used to either reduce the outstanding term (keeping the monthly repayments the same) or reduce the monthly repayments (keeping the outstanding term the same). The finance agreement should set out what will happen in these circumstances and, if it doesn't, I'd expect the lender to tell the borrower what would happen.

I've seen a copy of the conditional sale agreement documents signed on 30 March 2017. The terms and conditions of this agreement say:

3. EARLY REPAYMENT

3.1 You have the right to repay the amount you owe under this Agreement early either in part or in full, at any time. If you wish to exercise this right then you must notify us in writing at ...

3.2 If the early repayment at clause 3.1 is in part, then your payment should be made (and funds cleared) with 28 days beginning with the day after the day that we receive your notice, or on or before any later date specified in your notice. You may also be due a rebate of interest. If requested we will write to you to let you know the details of whether you are due a rebate or not and we will tell you the implications this will have on your future repayments.

While it's clear that Moneybarn wanted Mr M to write and tell them he intended to make a PES; it's not clear from the terms and conditions that Moneybarn will always use a PES to reduce the outstanding term, not reduce the monthly repayments. Had Mr M contacted them before he made the PES, Moneybarn could've told him *"the implications this will have on your future repayments"* were he would need to make fewer repayments, but the monthly repayments would remain unchanged.

It isn't the role of the Financial Ombudsman Services to tell financial businesses what policies they should have in place. This is a decision Moneybarn can make in line with its regulator, the FCA. So Moneybarn haven't done anything wrong by reducing the term instead of the monthly repayments. And, because Mr M didn't tell Moneybarn he intended to make a PES, even though the conditions said he should, Moneybarn couldn't tell him how this would impact things before the PES was made.

But Moneybarn have an obligation to deal with customers in financial difficulties positively and sympathetically. So if Mr M had explained to them at the time that he'd made the PES in order to reduce his payments because he was in financial difficulties; then I'd expect Moneybarn to have considered restructuring the payments, not the term. But I haven't seen anything to show me that Mr M told Moneybarn he was in financial difficulties at this point.

Mr M could also have explained this when he made his complaint in October 2019, but he didn't. I have seen that, as Mr M's arrears increased, Moneybarn provided him with details of organisations that could assist him. But I wouldn't expect Moneybarn to assume that all missed payments are because of financial difficulties, and I wouldn't expect them to act upon information they weren't aware of.

So I won't be asking Moneybarn to reduce Mr M's payments. But I'd still expect them to deal with his current financial difficulties positively and sympathetically and look to arrange a mutually agreeable repayment plan.

Finally, Moneybarn have explained why they don't accept payments by credit card. I don't consider this explanation to be unreasonable, so I don't think they did anything wrong by refusing Mr M's attempted payment by this method.

My final decision

For the reasons explained I don't uphold Mr M's complaint about Moneybarn No. 1 Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 8 October 2020.

Andrew Burford
Ombudsman