

The complaint

Mr D complains that when he made a lump sum repayment to his credit card account with Santander UK Plc, they used it to repay his interest free borrowing rather than those balances that were incurring interest charges.

What happened

Mr D was successfully accepted for a credit card account with Santander in August 2020. The account provided the ability to make fee free balance transfers during the introductory period. These would remain interest free for a period of up to 18 months. He also benefitted from interest free purchases on the account for the first three months.

Mr D arranged for monthly payments of £50 to be made by direct debit and also made additional payments where he was able.

Mr D completed two balance transfers in August 2020. He also made some purchases using the card during the first 3 months. All of these transactions benefitted from the interest free offer. Any new purchases made after 20 November 2020 were not subject to the interest free offer.

Mr D understood that Santander's policy was to apply any payments received to those balances attracting the highest interest rate first. During November and December, he continued to use his card to make various purchases. He knew that because of the expiry of the interest free offer on purchases, these would potentially incur interest. So, he made a separate payment to his card account of £986.75 on 11 December 2020 to repay these. This was in addition to the £50 paid by direct debit.

When Mr D received his statement dated 14 December 2020, it showed estimated interest of £13.48. He couldn't understand this. He thought that his balances were all interest free. He'd paid an amount which he intended to repay his November and December transactions that would attract an interest charge. Mr D believed that these would be repaid ahead of any interest free balance owed, in line with Santander's policy.

Mr D contacted Santander for an explanation. Santander said that his payment of £986.75 had been used to repay part of the interest free balance that he owed. Mr D thought that Santander had made a mistake, so he complained to them. He wanted them to reinstate the interest free offer in respect of those balances that previously qualified.

Santander told Mr D they hadn't done anything wrong. They said that his purchase interest rate of 0% expired on 20 November 2020. They said that his statement, billed on 18 November and due for payment on 14 December, was "*still active*". So, the amount he paid was used against this statement balance. They said that at the time of his payment the statement balances were all within their 0% interest period. There were no balances on that statement subject to interest. But because of the misunderstanding, Santander paid Mr D £50 towards any interest costs in January, February and March 2021.

Mr D wasn't happy with Santander's response, so he decided to refer his complaint to this service. One of our investigators looked into Mr D's complaint. He didn't think that Santander had done anything wrong. So, Mr D asked that his complaint be referred to an ombudsman 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.

As background, I should explain that that since 2010, there has been an agreement that Credit Card companies will apply payments to the balance attracting the highest interest rate first. This is now an obligation which is set out in the FCA handbook. It says that *"A firm must first allocate a repayment to the debt subject to the highest rate of interest (and then to the next highest rate of interest and so on) for...the outstanding balance on a credit card"*.

Santander have told us that a *"customer cannot make payments towards purchases until the purchases have been billed. On this basis the payment he made went towards the outstanding balance, which was the balance transfer amount"*. They said that this was *"explained on the customer's statement and also within the credit agreement. Please also refer to section 7 allocation of payments on the...key facts document"*.

I've looked at Mr D's credit card statement. It says *If you don't pay off the full amount outstanding, we will allocate your payment to the outstanding balance in a specific order, which is shown overleaf*". Overleaf there is a summary box. Next to *"Allocation of payments"* it says *"If you do not pay off your balance in full, payments we receive are applied to the highest interest bearing transactions first. For further details, please refer to your terms and conditions"*.

I then looked at Santander's Credit Cards terms and conditions. Section 17 specifically relates to payments and interest. Section 19 relates to statements. There is no reference at all to how payments received are allocated. So, I can understand why things might have been unclear to Mr D.

Finally, I looked at Santander's Credit Card Key Facts Document. Section 2 of the Pre-Contract Credit Information says:

"If you do not pay the account balance in full in any month, we will apply your payment to the stated transactions as follows:

- 1) It will be allocated to the different amounts of your outstanding stated balance that are charged at higher interest rates before those that are charged at lower interest rates.*
- 2) If interest is charged at the same rate on different amounts, we will apply your payment to the different amounts in the following order: cash transactions, payment protection insurance premiums, purchases, balance transfers, other special transactions (i.e. transactions on promotional terms and/or rates), other transactions, followed by other fees. If you have more than one special transaction at the same rate, your payment will be applied first to the special transaction that has the earliest promotional period end date.*

Where an account fee is charged as a result of a transaction or special transaction, it will be included as part of that transaction type and applied as set out in 2) above.

We will apply any remaining payment to transactions not yet shown on your statement in the same order as set out above."

Section 7.1 of the Credit Agreement, says:

"If you do not pay the Account balance in full in any month, we will apply your payment to the stated Transactions as follows:

- 1) *It will be allocated to the different amounts of your outstanding statemented balance that are charged at higher interest rates before those that are charged at lower interest rates.”*

I think that this document is clear with its explanation. Simply put, it means that any transactions that haven't yet been billed on a monthly statement are looked at last when it comes to allocating any payment made to the account – regardless of the interest charge they may attract.

When Mr D made his payment of £986.75 on 11 December 2020, the last statement issued by Santander was dated 18 November 2020. So, Santander applied his payment to that statement balance. The purchases that Mr D had made after 18 November 2020 hadn't been billed to him on a statement yet. The reference to payment allocations on the statement are specific to that statement. This appears to support Santander's explanation to us.

I can appreciate why Mr D thought that his payment would've been allocated towards the newer transactions. But this service's role is not a regulatory one. So, I'm unable to comment specifically upon Santander's policies, terms or conditions. I can only consider whether Santander have been fair and reasonable in the way that they've applied them to Mr D's circumstances. Although I appreciate that Mr D will be disappointed, I can't reasonably conclude that Santander have acted unfairly here. They've allocated payments in a way that conforms with the explanations in their Key Facts Document.

I'm pleased that Santander have recognised Mr D's misunderstanding by making a goodwill payment of £50. This is approximately three months interest, based upon his balance at the time. I think that this was fair and at least allowed Mr D to explore alternative options, should he have wanted. But I will not be asking Santander to do anything more here.

My final decision

For the reasons set out above, I don't uphold Mr D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 20 July 2021.

Dave Morgan
Ombudsman