

## The complaint

Miss S complains about the additional interest charges proposed by Hitachi Capital (UK) Plc in relation to her application for a COVID payment deferral on her loan with them

## What happened

In or around October 2019, Miss S applied to Hitachi for a loan of £15,000. Hitachi accepted her application and agreed to provide the loan with 60 monthly repayments of £341.91.

Miss S contacted Hitachi toward the end of March 2020 to ask for help, as her income was being impacted by the effects of the global pandemic. Hitachi confirmed they could provide “*breathing space*” and agreed to move back the date of her monthly payments from the beginning of the month to the end. They confirmed her next payment would fall due on 30 April 2020. They asked Miss S to contact them again if she was still experiencing difficulties.

Miss S contacted Hitachi again around mid-May 2020. She’d not been able to work due to restrictions imposed as a result of the global pandemic. Hitachi said they were working on a solution to comply with guidance issued by the Financial Conduct Authority (FCA). They expected to be able to offer a payment holiday but hadn’t finalised how this would be done. They agreed to place Miss S’s loan on hold. Hitachi said interest would continue to accrue but no charges would be incurred, and no collections activity would commence. They also confirmed this wouldn’t impact Miss S’s credit file. Hitachi suggested Miss S cancel her direct debit in the meantime.

Miss S contacted Hitachi again in early June. Her repayment direct debit had been claimed. She thought she had a repayment holiday. She thought they hadn’t told her to cancel the direct debit. So, Hitachi agreed to arrange a refund of the repayment.

At the beginning of July, Hitachi sent Miss S a letter offering to vary her loan agreement to include a three-month repayment holiday. They said Miss S’s repayments would remain unchanged but, the payment holiday would result in additional interest of £1,025.73 being applied to the loan. Hitachi asked Miss S to return a signed copy of the loan variation within 21 days, should she wish to accept it.

Miss S called Hitachi around mid-July. She wasn’t happy with the additional interest proposed by Hitachi and asked for an explanation and details of any calculations. As Hitachi couldn’t immediately answer her questions, Miss S made a complaint.

Over the following weeks, Hitachi continued to investigate Miss S’s complaint. They also tried to explain how the additional interest had been calculated. But Miss S wasn’t happy with their explanations and insisted they provide detailed calculations.

In the meantime, Miss S’s repayments were suspended but Miss S hadn’t returned the signed loan variation to Hitachi. As a result, Miss S’s loan fell into arrears. Hitachi said they’d provide four weeks to repay each missed payment without it impacting on Miss S’s credit file. Miss S had three repayments outstanding, so Hitachi said they’d allow her 12 weeks to bring payments up to date. They agreed to give Miss S until the end of October, after which her normal repayments would resume. Hitachi wrote to Miss S with their response to her complaint and included details of the arrangement they’d agreed with her.

Miss S maintained payments under the agreement. But at the end of October, her loan still, showed one month’s arrears. Hitachi said this related to the June 2020 payment which had

been refunded. They hadn't taken this into account. So, they agreed a further month for Miss S to bring payments up to date. But Miss S still wasn't receiving an income due to restrictions under the global pandemic.

Hitachi considered various options. They agreed a COVID payment deferral wasn't appropriate as Miss S wasn't happy with the additional interest calculations. They also thought that 30 days breathing space wouldn't be appropriate as once payments were brought up to date, Miss S would have 30 days before her next payment anyway. Miss S didn't want to take a reduced payment plan as this would impact upon her credit file. She wanted time to research and consider her options.

Miss S contacted Hitachi again at the end of January 2021. She said, under the FCA's guidelines, Hitachi weren't permitted to add interest onto her agreement for a payment holiday. She also said Hitachi should treat her situation with forbearance. Miss S still wanted a payment holiday but without the additional interest charges.

Later in February 2021, Miss S put her complaint to Hitachi in a letter. She also asked this service to investigate her complaint.

One of our adjudicators investigated Miss S's complaint. She didn't agree Hitachi had treated Miss S unfairly or done anything wrong. Miss S didn't agree with our adjudicator's findings. So, as an agreement couldn't be reached, the case has been passed to me for review.

### **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.

The Financial Conduct Authority (FCA) issued guidance to lenders on 2 April 2020 which explained what it expected from businesses during the exceptional circumstances arising out of the global pandemic. It provided guidance asking businesses to consider payment deferrals of up to three months under regulated credit agreements.

The FCA said their guidance applied where consumers were already experiencing or reasonably expect to experience temporary payment difficulties as a result of the pandemic. The FCA also said that *"firms should ensure that there is no negative impact on the consumer's credit file because of the payment deferral"*.

The FCA said *"firms would be entitled to charge a reasonable rate of interest where a customer requests a temporary payment freeze. In the event that a customer requires full forbearance that interest should be waived"*.

At the outset, I think it's important to understand the difference between the FCA's proposals for temporary financial relief where impacted by the pandemic, and situations where full forbearance is required.

The FCA's proposals were designed to provide temporary relief. It's generally accepted that this would only apply in a situation where any impact is expected to be short term. So, it would be reasonable to expect the consumer's circumstances to have improved by the end of the deferral period. Further guidance issued by the FCA on 1 July 2020 extended these measures, and where consumers were still struggling due to the global pandemic, businesses were advised to freeze or reduce their payments for a further three months. So, in practice, this could cover situations where the likely impact could last up to six months.

The FCA's credit sourcebook (CONC) provides rules and guidance for situations where a consumer is experiencing financial difficulty. These rules are distinct and separate from the FCA's COVID payment deferral guidance and generally apply where any difficulties are considered to be more long term or serious by nature. CONC 7 includes the following:

*“Lenders should consider consumers in default or in arrears difficulties with forbearance and due consideration. Examples include:*

- *Suspending, waiving or cancelling any further interest or charges*
- *Allowing arrears to be deferred where immediate payment could cause payments to be unsustainable or where the term would not be increased excessively*
- *Accepting token payments for a reasonable period of time in order to allow the consumer to recover from unexpected reduction in income”*

One of the main differences between the COVID deferral guidance and “*forbearance*” relates to the information reported to the credit reference agencies (CRAs). Where forbearance is offered under CONC 7, any agreements, arrears or breaches would still need to be reported to the CRAs. These obligations are set by the Information Commissioner’s Office (ICO). The COVID payment deferral scheme explicitly states that missed payments should not be reported.

Having considered Miss S’s concerns, I think Hitachi were entitled to calculate and charge any additional interest that may accrue as a result of providing a payment deferral. The FCA confirms this in their guidance. So, I can’t fairly say they’d done anything wrong here.

Miss S has also questioned the amount of interest Hitachi calculated to be added to her loan under a payment deferral. Hitachi have provided details of how this is calculated. In making the calculation, two factors needed to be considered:

1. In March 2020, Miss S’s repayment date was changed from the first to the last day of each month. So, for April, this added an additional 30 days between the previous and next expected payment.
2. Under a payment deferral, no payments would be made for May, June and July 2020.

The effect of these variations isn’t just for the months impacted. Deferral of payments means that Miss S’s loan would run for longer than was originally agreed in order to catch these up. Because the loan was still relatively new, this means any additional interest would accrue throughout the full remaining term of the loan – not just the deferred period. So, any additional interest would be calculated starting with the full amount owed at the time any deferral is agreed, reducing thereafter. The interest effect is also compounded (i.e. the additional interest, in turn, attracts further interest over the loan term).

I’ve taken the opportunity to review Hitachi’s calculations based upon the information they’ve provided and that contained within the loan agreement. And I think their calculations appear to be fair and reasonable.

I understand Miss S may disagree, but I can’t reasonably conclude that Hitachi have made a mistake, or that they’ve treated Miss S unfairly here. I appreciate Miss S will be disappointed, but I’m unable to uphold her complaint.

### **My final decision**

For the reasons set out above, I do not uphold Miss S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 23 March 2022.

Dave Morgan  
**Ombudsman**