

The complaint

Mr M complains that NewDay Ltd trading as AO Finance allocated payments to his accounts in way that disadvantaged him.

What happened

The details of this complaint are well known to both parties, so I won't repeat them again here. The facts are not in dispute so instead I'll focus on giving the reasons for my 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 agree with the conclusions reached by the investigator for the following reasons:

Mr M had two plans, one was an 18-month instalment plan and the other was a six month buy now pay later (BNPL) plan.

The statements sent to Mr M contain the following:

"If you don't pay your balance in full, we will allocate payments to balances with the highest interest rate before balances with lower interest rates. There are some exceptions to this including the way we allocate payments to any instalment or PayDown plan. For further details, please refer to the 'How do we apply payments to the different balances?' section in your Credit Agreement."

It allocated Mr M's payment to the 18-month interest free plan first as this had a higher interest rate. Mr M had been paying £50 a month to reduce the sum due on the BNPL plan. I consider his wish for the payments to be allocated in that way is both rational and reasonable. If he didn't clear his BNPL debt in time he would face a significant interest charge, but if he did pay it all on time he would pay no interest.

I agree that the business is right to allocate payments so that any debt with higher interest is paid off first. What is not clear how in Mr M's circumstances its standard allocation rules achieve the desired outcome. It seems to me that if Mr M wasn't in a position to pay off the BNPL at the required date he would incur sizable interest charges. I don't believe that has been factored into NewDay's thinking on this complaint.

I appreciate Mr M wasn't required to make instalment payments for the BNPL debt, but he felt it prudent to do so. I recognise he could have put the money into some other account so that he had it ready to pay off the BNPL debt in time to avoid a steep interest charge. However, I don't consider he should be penalised for taking a prudent approach.

I also think as NewDay seems to have accepted that its explanation in its final response letter was not as clear as it could have been this did not help Mr M understand how payments could be allocated. Indeed the terms and conditions which required Mr M to refer

to his agreement to fully understand the method of allocation is less than transparent. In short, simply paying off the earlier plan does not necessarily give the best result for Mr M.

I would add that I am not suggesting that NewDay in general is taking an unfair approach to the allocation of debt, but in the circumstances of this particular case its application of its rules results in Mr M being disadvantaged. My remit is to reach a fair and reasonable conclusion and that means I believe the payments made by Mr M which he intended to go against his BNPL debt be allocated as he wished.

Putting things right

NewDay should reallocate the payments as set out below.

My final decision

My final decision is that I uphold this complaint and I direct NewDay Ltd trading as AO Finance to:

- Move all payments made by Mr M that were not from his direct debit to his BNPL account as he had originally intended. These need to be done with the effective dates as being the dates Mr M made the original payments.
- Allow Mr M to pay to the plan he wants once he has advised you. This applies to the two plans Mr M holds and not to any other plan he may take out.
- Pay Mr M £50 compensation for the distress and inconvenience this has caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 26 August 2022.

Ivor Graham
Ombudsman