

The complaint

Mr A is unhappy that Bank of Scotland plc, trading as Halifax, charged interest to his credit account during a time when he was making repayments in line with a payment plan that had been arranged by a debt charity on his behalf.

What happened

Mr A found himself in financial difficulty and approached a debt charity which assessed how much Mr A could afford to repay and which then made offers of monthly payment to Mr A's creditors – including Halifax – on Mr A's behalf. Halifax agreed to the monthly repayment amount that the debt charity proposed, and Mr A understood that interest had been frozen on the Halifax account while the agreed repayment plan was in place.

However, a few years later, as the payment plan with Halifax approached its scheduled end, Mr A noticed that Halifax had been applying interest to the balance of his account during the payment plan period. This meant Mr A had a higher balance remaining with Halifax than he felt should be the case. Mr A wasn't happy about this, so he raised a complaint.

Halifax looked at Mr A's complaint. But they didn't feel that they'd acted unfairly towards Mr A by applying the interest to the credit account as they had, and so they didn't uphold Mr A's complaint.

Mr A wasn't satisfied with Halifax's response, so he referred his complaint to this service. One of our investigators looked at this complaint. But they also didn't feel that Halifax had acted unfairly towards Mr A in how they'd managed the situation, and so they also didn't uphold the complaint. Mr A remained dissatisfied, so the matter was escalated 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.

I can appreciate how Mr A might have believed that Halifax would have suspended the accrual of interest on his credit account during the time that he was in the payment arrangement negotiated by the debt charity on his behalf. And this is especially the case given that Halifax did suspend interest on the account for a short period of time following their agreeing to the proposed payment arrangement.

However, it's evident from the letters that Halifax sent to Mr A and the debt charity, dated 16 October 2018, that this was because Halifax believed that their acceptance of the payment plan would result in Mr A's account falling into arrears and subsequently being defaulted for not maintaining the minimum payments required on the account. Indeed, to that effect I note that Halifax's letters to the debt charity and Mr A confirmed the following:

“As agreed, due to our customer's financial situation, we are passing this account to our Recoveries team.

Agreed payment

While this happens, we confirm that we will temporarily accept monthly payment of £144.66, starting on 1 November 2018.

This payment concession is not contractually binding. This means that despite our concession, the terms of our customer's card agreement to make full monthly payments when they are due remain in full force.

This will also not stop a default being registered against our customer with the Credit Reference Agencies that we subscribe to.

Interest and charges on the account

Whilst we pass the account to our Recoveries team, as a temporary concession we will not charge any further interest on the outstanding balance. This does not affect any interest charges that have already been accrued.

When the account is passed to our Recoveries team no further fees, interest or charges will be applied."

In consideration of these letters, I'm satisfied that Halifax did initially indicate to both Mr A and the debt charity that they intended to accept the payment plan proposed by the debt charity, but that the acceptance of this payment plan wouldn't impact the contractual requirement for Mr A to make monthly payments towards the account to at least the level of the minimum monthly payments that were required, and that the account would fall into a position of arrears if this wasn't the case.

Additionally, I'm also satisfied that Halifax initially indicated to Mr A and the debt charity that, because it was anticipated that the monthly payment amount proposed by the debt charity would result in Mr A not making monthly repayments in line with the minimum monthly payments required on the account, Halifax intended to default the account at the earliest opportunity as allowed by industry practice and regulations.

Halifax's position here seems reasonable to me, and in circumstances where it's felt that a customer's account will fall into arrears, and where it's believed that that customer won't be able to clear those arrears and recover the position of the account in a reasonable period of time, it's generally accepted that defaulting the account at the earliest opportunity – rather than allow the account to remain in a position of arrears for an indeterminable amount of time – is in the best interests of that customer.

However, it's also notable that Halifax changed their position on this matter, and that they informed both Mr A and the debt charity of their change of position in letters dated 2 November 2018. These letters confirmed that:

"To give you a fresh start, we'll no longer treat your missed payments as arrears... This means that your account will no longer show as being in arrears and we won't demand immediate payment of the arrears amount.

If you miss any future payments, we'll treat these as arrears on the account."

The letters also confirmed that Halifax would accept the proposed monthly payments of £144.65 from 1 December 2018 to 1 May 2019, and that at the end of that payment arrangement the required payment amount would revert to the minimum monthly payment as contractually required on the account.

Finally, the letters also confirmed that Halifax would stop the accrual of interest on the account from 1 December 2018 to 1 May 2019.

Halifax have confirmed that the reason they changed their position on Mr A's account was because, upon review, the offer of a monthly payment of £144.65 made by the debt charity on Mr A's behalf was more than the contractual monthly minimum payment required on the account at that time – which was approximately £75 at a time when the account balance was close to the agreed credit limit, and which would reduce as the account balance was repaid.

This meant that it wasn't the case that Mr A's account would fall into arrears as a result of Halifax accepting the monthly payment proposed by the debt charity. And because the account wouldn't fall into arrears, there was no need for Halifax to begin the process of defaulting the account by transferring the account to their Recoveries team.

And while Halifax did agree to freeze the accrual of interest on the account for a six month period, until 1 May 2019, I don't feel that there was any requirement or obligation for Halifax to freeze the accrual of interest on the account for longer than this period.

I say this because the long term freezing of interest is usually applied when a customer can't make the minimum monthly payment required on the account, so that the continuing application of interest doesn't lead to the overall balance of the account increasing each month – which can happen when the monthly interest amount is greater than the amount that the customer can afford to repay.

In this instance the monthly payment offered by the debt charity was almost twice as much as the minimum monthly payment that was contractually required on the account, and given that interest would reasonably be applied to the account if Mr A had made the minimum contractual monthly payments, I see no reason why interest shouldn't be fairly applied to the account following a period of time where Mr A had been able to make approximately twice the monthly minimum payments required on the account, and while he continued to make payments at the same rate, which Mr A did for many months after May 2019.

I'm also satisfied that, as per the letters issued to Mr A and the debt charity by Halifax on 2 November 2018, that Halifax did give Mr A and the debt charity notice of how they would administer the account moving forwards. And I also note that the monthly account statements provided to Mr A by Halifax showed that the accrual of interest on the account had begun again from May 2019 onwards.

All of which means I find it difficult to conclude that Halifax have acted unfairly towards Mr A in the manner which he contends here. This is because Mr A was paying considerably more than the minimum payment required on the account such that I'm satisfied it was reasonable for Halifax to resume charging interest on the account when they did. And because I'm satisfied that Halifax gave clear notice of when they intended to begin charging interest on the account to both Mr A and the debt charity.

I also feel that it would be very difficult to consider instructing Halifax to reimburse the interest charged to the account as Mr A would like when the monthly payments that Mr A has made demonstrate that he could afford to pay more than the minimum monthly payment contractually required on the account over a substantial period of time.

Mr A has explained that he didn't review the statements sent to him by Halifax, but instead depended on the statements he received from the debt charity, which continued to suggest that no interest was being accrued on the account.

However, I remain satisfied that the debt charity was informed by Halifax that interest would

resume being incurred on the account from May 2019 onwards (as was Mr A himself), and so I wouldn't hold Halifax accountable for the debt charity not recognising this point. I also feel that it was incumbent on Mr A, as the account holder, to have monitored the ongoing status of his Halifax account directly, and I wouldn't consider Halifax to be at fault for the consequences of Mr A not doing so.

Finally, even had Mr A or the debt charity approached Halifax when interest began to be charged again on the account after May 2019, I don't feel that Halifax should in all likelihood have frozen the interest again at that time. This is because, as explained above, I'm satisfied that Mr A had demonstrated that he could afford to make payments towards the account that were more than the contractual monthly minimum payment required, such that it seems fair to me that the contractual terms of the account – including the accrual of interest – would be applied.

I realise this might not be the outcome that Mr A was wanting, but it follows from all the above that I won't be upholding this complaint or instructing Halifax to take any further action. I hope that Mr A will understand, given all that I've explained, why I've made the final decision that I have.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 3 October 2022.

Paul Cooper
Ombudsman