

The complaint

Mr J complains that Creation Financial Services Limited failed to make a reasonable adjustment to the persistent debt payment on his credit card account when he made a lump sum payment.

What happened

Mr J made a significant payment to his credit card with Creation Financial Services Limited {'CFS'} to reduce the balance. CFS didn't adjust the monthly repayment required under a persistent debt arrangement it had with Mr J and requested the minimum recommended payment in its next statement. When Mr J paid what he believed to be the new monthly payment CFS suspended his credit card. Mr J complained to CFS that this was unreasonable.

CFS didn't uphold Mr J's complaint and said it was acting on rules set out by the Financial Conduct Authority {'FCA'} to protect customers from potential debt problems in the future. CFS added that when the recommended amount wasn't paid its system automatically issued a letter confirming the credit card account was suspended, and that this is in line with the FCA guidance. CFS said it had made no errors and apologised for any inconvenience caused by the wording of the letter.

Mr J brought his complaint to the Financial Services Ombudsman and one of our Investigators looked into things. The Investigator thought that CFS should reasonably have treated Mr J's lump payment as a payment towards his persistent debt balance. And that it would have been fair for CFS to recalculate the amount Mr J would have to pay each month to reduce the persistent debt over the remaining term of the arrangement. The Investigator thought that CFS shouldn't have suspended Mr J's credit card when it did and that it should pay Mr J £250 for the inconvenience this had caused him.

CFS didn't agree with the Investigator and said its inclination is to keep the recommended payment amount unchanged, but it only suspends a credit card if the customer is behind on the repayment against the cumulative recommended payments.

Mr J has told us that his credit card is open with a reduced outstanding balance, but believes it shouldn't have been suspended, and that £250 is not enough to remedy the inconvenience the suspension caused him.

The complaint was passed to me to decide.

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 understand that CFS will be disappointed, by for very much the same reasons as the Investigator I've decided that CFS treated Mr J unfairly when it decided not to recalculate the monthly payment after a lump sum payment was paid to the account. I will now explain why.

The FCA rules state that persistent debt is when a consumer has paid more in interest, fees, and charges than they've repaid towards the capital they owe over the previous 18 months. The FCA goes on to say that business should write to a customer to provide options to help repay the debt and if necessary, agree a repayment of the debt over 48 months. Mr J says he didn't receive any notices from CFS, and this may be the case. However, I'm persuaded that the system notes CFS provided show it's more likely than not it sent Mr J the letters it was required to send him.

Because the persistent debt had been maintained for 36 months, CFS sent Mr J a letter in February 2022 explaining that it would increase his monthly payments to ensure it was paid off over 48 months. From this point there were two payments listed on Mr J's statements; one was for the minimum payment required and the other was for the minimum payment recommended (to repay the persistent debt over 48 months). When Mr J paid a significant amount to his card in late September, the October statement showed the minimum payment amount and the recommended payment amount. Mr J paid the minimum amount required expecting CFS to make an adjustment to the minimum recommended payment, but it didn't, and in December CFS suspended Mr J's credit card account.

CFS has told us that their concern with recalculating the payment every time an overpayment is made is that it would essentially discourage customers who wanted to repay faster than 48 months, keeping them in debt for longer. I understand that CFS wasn't inclined to recalculate the minimum recommended payment, but The FCA state that a review of a persistent debt and repayment should take place at least once a month.

The payment Mr J made was a significant one and reduced his card debt by about two-thirds. Because of this, I think it would've been fair and reasonable for CFS to have reassessed the level of persistent debt after this payment had been made and to make any adjustment. The FCA rules allow for the minimum recommended payment to increase again if, at a later review date, it was required to pay the persistent debt off before the 48-month period expired. In this regards, CFS say they took into account that Mr J continued to use his credit card after the significant payment had been made. I accept that he did, but the spending was significantly reduced – below £250 over the next two months.

Mr J has confirmed to us that the credit card is now open with a balance that has been reduced further. This is supported by a statement I've seen dated February 2023 which shows there is no longer a recommended minimum payment, only a minimum payment in line with the terms and conditions of the credit card. CFS has provided a template of a letter it says it sent Mr J in January 2023 and as Mr J has referred to this letter in correspondence with the Investigator, I'm satisfied he received it. This letter explained the card was no longer suspended and that CFS had adjusted the amount due to the minimum payment required.

Putting things right

Taking all of the above into account, I've decided it was unfair and unreasonable for CFS to suspend Mr J's card when it did as it didn't consider the debt had been significantly reduced. This meant that Mr J was unable to use his card for about nine-weeks until January 2023 and I'm satisfied he would have been inconvenienced by this, but I feel that £250 is a reasonable remedy to reflect this was a relatively short-time.

My final decision

I've decided that Creation Financial Services Limited should pay Mr J £250 to reflect the inconvenience of him not being able to use his credit card for a relatively short time.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or

reject my decision before 8 June 2023.

Paul Lawton
Ombudsman