

The complaint

Ms E complains that NewDay Ltd trading as John Lewis Credit Card has unfairly applied interest to the balance of her credit card account.

What happened

In September 2022 Ms E opened a credit card account with NewDay. She arranged a direct debit to pay the minimum amount due each month but, in addition, she intended to make an extra monthly payment separately so the full balance would be cleared, and no interest added to her spending.

Ms E noticed that NewDay was charging her interest each month which she says was a surprise as she believed she had paid the full amount due as shown on her statement. Ms E says that on at least two occasions she raised this with NewDay and it then cancelled the added interest charges as it had made an error. NewDay says that it removed the interest charges for Ms E as a gesture of goodwill because she was a customer who usually paid on time. It didn't accept the interest had been charged in error. NewDay says it explained to Ms E why interest had accrued on her account when she had phoned it.

Ms E says she became frustrated with the way interest was being added and decided to stop using the credit card. She cancelled the direct debit and paid what she considered to be the balance on the account. Ms E was advised by NewDay that there was still an outstanding amount on her account but she disagreed. Ms E made a complaint to NewDay.

NewDay didn't uphold Ms E's complaint. It said that the refunds of any interest charges had been gestures of goodwill, NewDay said that if additional payments were made by an account holder when a direct debit was set for a requested amount then, if that additional payment had been made three or more days before the payment due date, the direct debit amount would be reduced by the amount the cardholder had paid. Meaning if Ms E made an additional payment that was greater than the amount to be taken by the direct debit three or more days before that direct debit date, then the direct debit wouldn't be collected. NewDay said Ms E owed £61.80 on her credit card account as her minimum payment direct debits hadn't been collected. It passed her account to a third-party company for the outstanding money to be collected.

Ms E was unhappy at NewDay's response and complained to this service. Our investigator recommended her complaint should be upheld. He said he didn't think NewDay had acted fairly. Our investigator said that looking at the statements, these set out the total balance for each month and the payment due date. They also set out that a direct debit for the minimum amount would be collected. He said that Ms E had therefore deducted the direct debit amount from the balance and then paid the remaining amount in order to clear the full amount owed. Our investigator said that under the terms and conditions of the credit agreement that additional payments could be made by the cardholder. He said these terms didn't set out that in certain circumstances this could result in the direct debit not being collected.

Our investigator said that to put things right NewDay should wipe off any money due on Ms

E's account, remove any adverse credit information about this account with the credit reference agencies and also pay her £150 for the trouble and upset she has been put through.

NewDay disagreed with the view of our investigator. It said it had sent a letter to Ms E in October 2022 about her direct debit payments and that in this letter, it had explained about the impact of making additional payments when also paying by monthly direct debits. It said Ms E had been provided with the terms and conditions that applied to making payments.

As the parties were unable to reach an agreement the complaint has been passed to me.

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.

Ms E's intention when using the credit card was to clear the balance in full each month and, by doing so, not accrue interest on her spending. I've seen that to ensure payments were made regularly and not missed, Ms E made the sensible decision to set up a direct debit payment. She set her direct debits for the minimum amount.

Looking at her monthly statements, I can see Ms E is advised of the minimum payment due that month (which depended on the total amount outstanding) and the date that her direct debit for that minimum would be collected from her bank account. Ms E therefore calculated what extra payment she would need to make in addition to the direct debit to clear the total balance. So, for instance, if the amount owed in one month was £80 and the direct debit was for £5.00 Ms E would pay £75 by way of a separate payment.

However, because the additional payment was made by Ms E three days or more before her direct debit was collected, and this extra payment was always greater than the direct debit amount, then the direct debits were actually never collected. This meant Ms E wasn't clearing her balances monthly as she thought.

I've seen from the notes of Ms E's account provided by NewDay that she had contacted it on at least two occasions querying the interest that had been added to her account. This resulted in NewDay, as a gesture of goodwill removing the added interest. The notes also say it "educated" Ms E about how the direct debits and additional payments worked. However, I don't know what was said to Ms E during these calls by NewDay's agents and as she continued to make additional payments alongside the direct debits, I think it's reasonable to conclude that any explanation, if provided, hadn't been very clear and the situation continued.

Looking at the credit agreement's terms and conditions it says "*You can always pay more than the contractual minimum payment, or pay off your entire balance, either with your monthly payment or at any other time. If you do pay more than the contractual minimum payment it will take you less time and it will cost you less to pay off your balance.*" I can't see in the agreement that it also sets out that additional payments may interfere with the collection of a direct debit in certain circumstances.

I have also looked at the letter NewDay sent Ms E in October 2022 about her direct debit payments. This says "*How do additional payments affect your Direct Debit? -If you make an additional payment three or more working days before your payment due date your Direct Debit amount will reduce by the amount of the payment. You can find further information about Direct Debits and additional payments in the FAQ section of your Online Account Manager at johnlewiscreditcard.com/login.*"

While I accept this means Ms E was informed about the direct debit amount being reduced it doesn't warn that the direct debit may not be collected at all. I don't think this information is clear and transparent enough as it would be reasonable for Ms E to have expected her direct debit to have been taken each month, she would have assumed that a direct debit was a reliable and regular method of payment.

Looking at Ms E's statements I can see that no payments were received via a direct debit and only the additional payments were showing as credits on her account. But as she had set up the direct debit payments and this had been confirmed by NewDay, then I'm not surprised she may not have noticed these weren't on her statement. She would have relied on the direct debit being collected. She wouldn't have been notified by her bank that the direct debits hadn't been paid and as there were for small amounts I don't think the lack of being collected would have been obvious from her bank account balance.

So, I don't think it was made clear to Ms E that she needed to consider that if making additional payments then the timings of these may disrupt the amount that would be collected by direct debit. I therefore don't think that NewDay has handled Ms E's account fairly and I'm upholding her complaint.

Putting things right

I understand that Ms E's account with NewDay is now closed. I'm therefore asking NewDay to cancel the outstanding balance in full and remove any adverse information reported to the Credit reference agencies about this account.

I also think that Ms E has been caused unnecessary distress and inconvenience by NewDay's handling of her account and the adding of the interest to her balance. I agree with our investigator that £150 compensation is fair and reasonable when looking at the impact this has had on Ms E.

My final decision

For the reasons set out above I'm upholding Ms E's complaint. I'm asking NewDay Ltd trading as John Lewis Credit Card to do the following:

- Cancel the balance in full that is outstanding on Ms E's account.
- Remove any adverse information that has been reported to the Credit Reference Agencies about this account.
- Pay Ms E £150 for the distress and inconvenience caused by its handling of her account and the adding of interest to her balances.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms E to accept or reject my decision before 22 February 2024.

Jocelyn Griffith
Ombudsman