

The complaint

Mr F is unhappy with how Santander UK Plc have handled his credit card.

What happened

On 18 January 2022 Mr F applied for the *Everyday No Balance Transfer Fee* credit card with Santander. This card offered an introductory 18 months interest free on Balance Transfers until 18 July 2023 and three months interest free on Purchases until 18 April 2022.

On 26 January 2022 Mr F completed a Balance Transfer of £3,500 to the new card, and from September 2022 Mr F started to use the card for various purchases. The majority of these purchases were refunded to the account within a short time of the transaction being made, sometimes on the same day.

Mr F's October 2022 statement showed numerous purchases and refunds and that the direct debit payment for the October 2022 statement wasn't collected by Santander.

Mr F contacted Santander around June 2023 as he was unhappy that he'd been charged interest on his account when he had an interest free Balance Transfer deal until 18 July 2023. Looking back on his statements Mr F thought the failure to collect payment in October 2022 had caused this.

Santander explained the timing of refunds to Mr F's account in October 2022 meant they had been applied to clearing the Balance Transfer balance brought forward from the September 2022 statement, so it was the purchases Mr F had started to make after the September 2022 statement had been issued that were attracting interest. Santander said Mr F's account had been correctly managed, but Mr F said this could not be right or fair.

Santander also considered the Notice of Sums in Arrears (NOSIA) letter they sent Mr F in March 2023 as Mr F had raised concerns about receiving the correspondence. Santander confirmed the letter was typical to be issued in the case of a missed payment under the requirements of a NOSIA, but confirmed the letter had not adversely impacted Mr F in any way.

The Investigator reviewed Mr F's concerns and did not uphold the complaint as they concluded Santander had fairly applied the terms of Mr F's account.

Mr F disagreed with the Investigator as he did not think proper consideration had been given to the difference between a refund and making a payment towards the account or the timing of the refunds in relation to their corresponding transactions. Mr F said the way in which the credit card worked had not been made clear and even if this was how it worked it was not fair as individuals could find themselves losing their promotional interest rates without having any ability to stop that from happening.

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 have also taken into account any relevant law and regulations, regulators' rules, guidance and standards, codes of practice and (where appropriate) what is considered to have been good industry practice at the relevant time.

I also remind the parties that the Financial Ombudsman Service was set up to resolve individual disputes based on what is fair and reasonable in the circumstances of each individual case, so this service is not a court nor an actuarial service. And I do not have the power to fine or punish businesses or direct them to change their processes, systems or controls – those are considerations for the financial regulator, the Financial Conduct Authority (FCA).

I understand this will come as a disappointment to Mr F who I recognise feels strongly about what has happened on his account, as well as his wider concerns about how the account works in general, but having reviewed this matter I think Mr F's complaint should not be upheld for broadly the same reasons as those reached by our Investigator.

It is for me to determine the issues relevant to resolving this case and at the heart of this matter is how Mr F's credit card with Santander works and whether, in Mr F's case, Santander have fairly and reasonably applied their terms and conditions to Mr F's account. I've first looked at what's happened on Mr F's credit card leading up to this complaint.

Mr F took out his credit card on 18 January 2022 with the promotional offers I have described above, and began to make purchases using the credit card after his 15 September 2022 statement had been issued. Until then that meant the only balance on the credit card related to the Balance Transfer balance which Mr F was making payments towards clearing each month. Mr F had set up a direct debit mandate to make the minimum payment due each month.

Mr F's 15 September 2022 statement, summarising Mr F's account at that point showed his new balance going forward as £3,262.24 with a minimum payment of £32.62 due on or immediately after 10 October 2022. The statement estimated the next months' interest as £0.00 due to the assumption of no spending.

The following months' statement on 17 October 2022 confirms the previous balance brought forward from September 2022 as £3,262.24. It also shows that Mr F started to use the credit card for purchases.

Mr F made over 30 individual purchases to different merchants using the credit card. The total cost of the purchases showing on the 17 October 2022 statement was £7,184.08. I note that rather unusually the majority of these purchases were refunded by the various merchants back to the card in the same statement period so they also show on the 17 October 2022 statement. The total sum of these merchant refunds was £7,077.95.

By the time the minimum payment was due on 10 October 2022 for £32.62, over a £100 of merchant refunds had already been credited to the account, so the 17 October 2022 statement showed no direct debit payment had been taken. The 17 October 2022 statement also showed that the estimated interest for the next month was £113.11.

Santander have said interest began to accrue on Mr F's account after the merchant refunds cleared the only outstanding balance showing at the time they were applied to the account – which was the Balance Transfer balance.

Mr F's position is that a merchant refund to the account should only have been used to clear the balance of the corresponding purchase, and should therefore not have been used towards any other balance on the card. He has also expressed concern that it does not seem right for merchant refunds to be credited to the account before the corresponding transaction becomes due for payment.

The terms and conditions from September 2021 which Santander have submitted as applicable to the time in question, set out under 18.4 that, *'Where a shop or other person you have paid using your Card gives you a refund, your Account will be re-credited when we receive an acceptable refund voucher. Any refund will be treated as a payment towards your Account balance and allocated in accordance with Condition 7. This means it may not pay off the specific Transaction to which it related.'*

Condition 7 forms part of the Key Facts Document which includes pre-contract credit information. 7.1 says, *'If you do not pay the Account balance in full in any month, we will apply your payment to the statemented Transactions as follows: 1) It will be allocated to the different amounts of your outstanding statemented balance that are charged at higher interest rates before those that are charged at lower interest rates...*

In view of the above I'm satisfied any merchant refund to the credit card would not necessarily be applied directly to the corresponding purchase transaction.

I've also considered the timings of the refunds. As I note Mr F has said in his submissions, refunds by merchants are not predictable. So I think it's fair to say Santander were not in control of when such refunds would be applied. Mr F's own statements show that some of his merchant refunds were made quickly while others took a few more days. But as set out in the account terms and conditions all the merchant refunds would be treated as a payment towards Mr F's account balance.

At the time the £7,077.95 of merchant refunds were applied to Mr F's account, Mr F's statemented balance was £3,262.37. It is apparent the merchant refunds far exceeded the statemented balance and therefore cleared it, so the Balance Transfer balance no longer existed and with its removal the promotional interest rate no longer applied.

The purchases Mr F made during this same period, while they would have started to attract interest from the date of each transaction, would not have become part of the statemented balance until the 15 November 2022 statement. And unless the statemented balance was cleared in full by the next payment due date (set out in the 17 October 2022 statement) then interest would be applied to these purchase transactions going forward.

The Key Facts Document explains that if the balance is not paid in full, payments received are applied to the highest interest-bearing transactions first and that balances which are already on a customer's statement will be paid before any new transactions.

I think this reinforces that the terms of the account were fairly applied to Mr F's account given the only balance on the statement at the time the numerous merchant refunds were made was the Balance Transfer balance, so this is why it was paid off by the merchant refunds, leaving the new balance going into the next statement period to be made up only of purchases - which therefore attracted interest going forward unless repaid in full by the next payment due date.

The Key Facts Document explains no interest will be paid on new purchases if the balance is cleared in full and on time each month. As Mr F did not clear his balance in full in November 2022, this meant interest was applied to the account.

I realise Mr F feels strongly about the product itself and how it works, but my role does not interfere with the business's commercial decision making and as I've already mentioned, this service does not fine or punish businesses.

Taking all the above into account I've not seen anything to suggest that Santander have unfairly or unreasonably applied the terms of Mr F's account here.

I've considered Mr F's concerns about the October 2022 payment that wasn't collected by Santander and his initial belief that this caused his account to start accruing interest. However, as I've now explained above the reason for interest being applied to Mr F's account, I think it's fair to say that the payment which wasn't collected in October 2022 was therefore not the reason behind this.

Lastly I note Mr F's reference to the NOSIA letter he received in March 2023. I recognise his frustration with this letter, but the letter is something Santander are required to send out under the Consumer Credit Act 1974, so I'm unable to say they've done anything wrong here. And given credits were made to Mr F's account in February and March 2023 by way of merchant refunds, I am not aware of any adverse records on his credit file so I think it's reasonable to say Mr F hasn't been adversely impacted by the letter.

My final decision

For the reasons above, my final decision is that Mr F's complaint is not upheld.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 25 November 2024.

Kristina Mathews
Ombudsman