

The complaint

Ms R complains about interest applied to her credit card by Creation Financial Services Limited trading as Creation.

What happened

Ms R has a Creation credit card. On 17 August 2023 Creation sent Ms R a credit card statement that said she needed to make a minimum payment of £11.73 by 4 September 2023.

On 18 August 2023 Ms R used her Creation credit card to make a payment to a business I'll refer to as W. The payment was classified as a cash transaction, so Creation applied the relevant interest rate along with a £12 cash handling fee.

On 2 September 2023 Ms R made a manual payment of £400 to the credit card balance. Ms R's explained she's aware that cash transactions are charged at the highest rate of interest by Creation. Ms R says that payments are meant to be applied to transactions attracting the highest rate of interest first so expected the £400 to be used to clear the cash balance on her credit card. On 4 September 2023 a direct debit payment of £11.73 to cover Ms R's minimum payment was received by Creation.

In the months that followed, Ms R noticed she was continuing to incur interest for the cash balance, despite making a £400 payment to clear it. Ms R went on to complaint to Creation and it issued a final response.

Creation said that when it issued the 15 August 2023 credit card statement it advised the total outstanding balance was £366.36. As a result, when the manual payment was received on 2 September 2023, it was used to repay the statement balance. Creation said that when a customer makes a payment it will go towards the balance on the statement first, not any transactions that have happened since the statement was printed. Creation didn't uphold Ms R's complaint.

An investigator at this service upheld Ms R's complaint. The investigator wasn't persuaded Ms R could reasonably have been aware that by making the payment of £400 before the next statement had been produced it would be used to repay the previous statement balance first. The investigator asked Creation to refund the interest applied to the cash transaction after 2 September 2023. Creation asked to appeal and said it had correctly applied Ms R's payments to her credit card balance. As Creation asked to appeal, Ms R's complaint has been passed to me to make a 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.

In its file submission to this service, Creation explained that cash interest is charged from the first day the transaction is applied to the account. But Creation's explained that if a payment

is received before the next statement is produced, where the cash transaction is shown, it will be applied to the existing outstanding balance – as per the previous statement. I understand Creation has applied the payment in line with its normal processes. But I agree with the investigator that, in this instance, Ms R couldn't have reasonably been aware that by making a manual payment before the next statement date it wouldn't be used to repay the cash balance which attracted the highest rate of interest. I'll explain why.

Creation has provided information it gives to customers concerning how payments are allocated. The information says that if the full amount outstanding isn't paid, Creation will allocate payments to the outstanding balance in a specific order with the balance attracting the highest interest rate being repaid first. But when Ms R made her payment on 2 September 2023, from her view the outstanding balance had increased to include the transactions she made up to that date and after the current statement had been produced. The information doesn't specifically say Creation applies payments to the current statement balance first then uses remaining funds to repay transactions made after the current statement balance has been issued.

I think Ms R's view that Creation would use any payments made to repay the balance attracting the highest rate of interest first was a reasonable interpretation of the information available. I haven't seen anything in the information Creation has sent us that clearly explains that manual payments made between statement dates will be used to clear the current statement balance (regardless of interest rate) first.

I'm satisfied that if Ms R had been aware of the way payments were applied, she could've waited until the following statement was produced before making the manual payment. That would've meant the £400 payment to W that was attracting the highest rate of interest would've been repaid and no further cash interest would've been incurred. I agree with the investigator that the fairest approach is for Creation to rework Ms R's account so that the £400 payment she made on 2 September 2023 was applied to the cash balance and refund all associated interest applied from that date. As a result, I'm going to proceed and uphold Ms R's case on that basis.

My final decision

My decision is that I uphold Ms R's complaint and direct Creation Financial Services Limited trading as Creation to settle by reworking Ms R's account so the payment of £400 made on 2 September 2023 is applied to the cash balance and refund cash interest applied from that date. Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 25 July 2024.

Marco Manente
Ombudsman