

The complaint

Mr S complains that a fixed sum loan agreement that he took out with Mitsubishi HC Capital UK Plc wasn't clearly explained to him. He says the adviser who sold him the loan didn't explain that interest would be backdated to the start of the agreement if no payment was made by the end of the deferral period.

What happened

In August 2022, Mr S entered into a fixed sum loan agreement with Mitsubishi. The loan was for the installation of windows to his property. Mr S says the supplier of the windows, who brokered the finance, originally presented an arrangement that was unaffordable. The supplier then presented an option for him to finance the purchase with an interest-free period of a year. Mr S agreed to the transaction and consequently entered into the loan agreement with Mitsubishi.

Mitsubishi started to take direct debit payments from Mr S a year later. Mr S then decided he wanted to settle the loan but when he received the settlement figure, he felt this was too high as he had understood that interest would only be applied from September 2023.

Mr S contacted Mitsubishi to query this who told him that if the agreement wasn't settled in full within a year, interest would be backdated to the start of the agreement (August 2022). Mr S then complained that he hadn't been told this information by the supplier.

Mitsubishi didn't uphold the complaint. They said they had acted within the terms of the loan agreement but apologised for him not being told by the supplier that the interest would be backdated to the start of the agreement. Mitsubishi also said though that Mr S had been given sufficient information from them to make him aware that interest would be payable after the deferral date passed.

Mr S remained unhappy and so he referred his complaint to our service. His case was considered by two of our investigators, neither of whom recommended that the complaint should be upheld. So, Mr S's complaint has been 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've looked at the pre-contract information, the terms and conditions of the fixed sum loan and correspondence sent by Mitsubishi to Mr S. I've seen that Mr S electronically signed the fixed sum loan agreement and so I'm satisfied that he received a copy of it.

The agreement and the pre-contract information both set clearly out that the applicable interest rate was 11.9%. The agreement also set out the total credit charge was £5,701. I think it's fair to say Mr S would have been aware of the interest rate that was being applied to the agreement. On the first page of the agreement there is a box headed "Interest Charges" which sets out the rate and which says that this rate has been calculated in advance and applied on the date of the agreement. So, I think this is clear that the interest isn't added from the end of the deferral period, but from the start of the agreement.

There's a section in the agreement titled "Repayments", which is set out under the interest charges box on the agreement. This says that if by the first deferred payment date the amount of credit has been fully paid then no interest will have to be paid. I think this is clear that it is only if the settlement of the agreement is made during the deferral period, then no interest will be charged. However, if no payment is made to clear the outstanding balance, then interest is charged from the start of the agreement.

The reminder letter sent by Mitsubishi before the deferral period was due to end is also clear about how interest will be charged.

I note that Mitsubishi apologised for what prompted Mr S to complain. But I'm not entirely sure that they did this because they admitted that the supplier didn't make the interest position clear. I say this because I've not seen that they asked the supplier for their comments on this. However, irrespective of this, I think that there was enough information overall for Mr S to have realised how interest would be applied. The fixed sum loan agreement sets out the rate of interest and that it will be applied from the start of the agreement.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 13 December 2024.

Daniel Picken
Ombudsman