DRN-5799078

The complaint

Mr B complains NewDay Ltd incorrectly allocated a payment towards the wrong finance agreement, meaning he's incurred interest charges.

What happened

Mr B has a revolving credit facility with NewDay to make purchases with a specific retailer. In October 2022, Mr B bought a laptop (agreement 1), financed through his credit agreement with NewDay, which was to be repaid over 36 months with no interest being charged.

In December 2022, Mr B bought a washing machine and tumble dryer (agreement 2), again financed through his credit agreement with NewDay, this was a buy now pay later agreement, meaning as long as Mr B repaid the full amount within 12 months, no interest would be charged, after this interest would be applied.

Mr B maintained his monthly payments towards agreement 1 with a view to paying it off across the 36 months. In October 2023, Mr B says he was in a position to pay off agreement 2, so called NewDay to do this.

In August 2024, Mr B checked his online account and became aware the October 2023 payment had reduced the outstanding balance of agreement 1 rather than 2, which meant agreement 2 was now incurring interest. Mr B consequently complained.

NewDay didn't agree it had done anything wrong. It says it allocated the payment in line with its terms and conditions meaning interest had been correctly applied to agreement 2. As a gesture of goodwill, NewDay removed the interest applied to agreement 2 for August, September and October 2024.

Unhappy with NewDay's response, Mr B referred his complaint to our Service. I previously set out my provisional findings, which I've included below:

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've given consideration to the relevant rules and regulations applicable to this complaint and while I may not comment on everything (only what I consider is key) this is not meant as a discourtesy to either party, rather reflects the informal nature of our service.

NewDay has explained it no longer has a copy of the call recording in which Mr B made the payment in October 2023, so I'm not able to confirm exactly what was discussed. NewDay has provided a summary of the call, in which it says its advisor explained the payment would go towards the oldest plan or the one with the highest interest rate. It therefore says that as both agreements were on a promotional rate of 0% at the time, it was correct to allocate the payment to agreement 1, being the oldest agreement.

However, Mr B says he intended to make the payment towards agreement 2, to pay this off before it started incurring interest. The amount Mr B paid was the total balance of agreement

2, and the payment was made two months before that agreement would start to incur interest charges. So, I'm satisfied Mr B intended to pay off agreement 2 during that call. I think this is further supported by the fact Mr B had been making payments towards agreement 1, that if maintained would see it paid off fully within the interest free period.

While I haven't been able to listen to the call in October 2023, I think it's reasonable to say that if being told the payment would go towards the one with the highest interest rate, Mr B is likely to have thought this was going to agreement 2, as while both agreements were currently on 0%, he was making instalment payments to pay off agreement 1 within the promotional period, and was aware that agreement 2 would shortly start incurring interest if it wasn't paid in full. So, had this been clearly explained, I think Mr B would have asked that the payment went to agreement 2, or would have waited to make the payment when he could have ensured it paid off agreement 2.

I've taken on board NewDay's comments that the payment was allocated in line with the terms of the credit agreement, being that when there is more than one promotional agreement in place (as was the case here), any payment would be assigned to the oldest agreement.

However, my understanding is that it's possible to make payments to agreements 1 and 2 at any point. So, like our Investigator, I haven't found it was only possible for Mr B to make an overpayment to agreement 2 while both accounts had outstanding balances. However, if this wasn't possible and in October 2023 Mr B was told any payment would initially only pay down agreement 1, then had this been clearly explained I think Mr B would have waited to make this payment. And for the reasons explained above, I believe it was Mr B's intention to pay off agreement 2.

I also note NewDay's comments that Mr B didn't then check his online statement until August 2024, so could have identified the problem sooner. While I agree Mr B could have checked the status of his account sooner, I haven't seen that this would have led to a noticeably different outcome. I think it's likely NewDay would have reached the same conclusion, and my understanding is Mr B wouldn't have been in a position to pay off agreement 2 in any case, having saved to make the October 2023 payment.

Rather, I think the fair steps for NewDay to have taken when Mr B complained in October 2024, would have been to acknowledge that there appeared to be a genuine misunderstanding and that the facts supported Mr B intended to pay off agreement 2 when making the October 2023 payment. Had this been clearly explained, his payment in October 2023 would either have been made to agreement 2, or Mr B would have waited to make the payment until it could be guaranteed to go to agreement 2. Acknowledging this, I think it would have been reasonable for NewDay to support Mr B as their customer and rework agreements 1 and 2, as if the October 2023 had paid off agreement 2.

Consequently, I think a fair resolution to the complaint is that NewDay treats it as if the October 2023 payment had paid off agreement 2 in full. I've detailed below the steps I think NewDay should therefore take to resolve this complaint:

- *Rework the accounts as if the payment of October 2023, had paid off agreement 2;*
- *Remove any interest charged to agreement 2;*
- *Allocate any payments Mr B made after October 2023, to agreement 1;*
- *If this means Mr B has paid more than the outstanding balance on agreement 1, NewDay should reimburse this amount, alongside 8% simple interest (in line with our services approach to redress) from when any overpayments were made to the date*

of settlement;

- *Confirm to Mr B how much is outstanding under agreement 1, as I understand this is still in its interest free period; and*
- *Remove any adverse information from Mr B's credit file (if there is any);*

I didn't receive a response or further comment in relation to my provisional findings from NewDay by the deadline I set. Mr B responded to say he accepted my proposed outcome.

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.

As I've not received any further comments or arguments following my provisional decision, I see no reason to reach a different outcome to the one I've set out above. Therefore for the reasons I've previously explained, I uphold this complaint as I think NewDay could have done more to support Mr B when it became apparent the October 2023 hadn't been allocated as intended and this appeared to be due to a genuine mistake.

Therefore, to put things right, I direct NewDay to do the following:

- *Rework the accounts as if the payment of October 2023, had paid off agreement 2;*
- *Remove any interest charged to agreement 2;*
- *Allocate any payments Mr B made after October 2023, to agreement 1;*
- *If this means Mr B has paid more than the outstanding balance on agreement 1, NewDay should reimburse this amount, alongside 8% simple interest (in line with our services approach to redress) from when any overpayments were made to the date of settlement;*
- *Confirm to Mr B how much is outstanding under agreement 1, as I understand this is still in its interest free period; and*
- *Remove any adverse information from Mr B's credit file (if there is any).*

My final decision

For the reasons set out above, I uphold this complaint and direct NewDay Ltd to take the steps set out above to resolve this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 October 2025.

Christopher Convery
Ombudsman