

complaint

Mrs K complains that Creation Financial Services Limited has added interest to her debt after a period of not applying interest. She says that this means that she will probably never be able to repay the debt in full and is making her financial problems worse. Mrs K, who is represented by a relative, wants Creation to refund interest on the account from 2010 onwards.

background

Mrs K had a store card account and began having problems paying it in 2004. She made an arrangement with Creation to pay a set amount each month and Creation stopped charging interest. In late 2007 Creation began charging interest again – meaning that Mrs K's payment of £25 only reduced her debt by about £4 per month.

In April 2008 interest was stopped and Mrs K had to reduce her payments to £10 per month. She did this for some time and then in February 2010 the business started charging interest again. The interest effectively meant that Mrs K did not reduce her debt other than by a few pence a month. Eventually Mrs K could no longer afford £10 and reduced her payments to £5. Again interest charges took all – and sometimes more than – this payment.

Mrs K complained but Creation said that it had applied interest correctly.

The adjudicator recommended that this complaint should be upheld. She concluded that payment arrangements that effectively mean that Mrs K may never repay her debt were neither positive nor sympathetic. She recommended that Creation remove all interest charged from 2007 onwards and apply all of Mrs K's payments in reduction of her debt. She also recommended that Creation should pay Mrs K £100 for the distress and inconvenience that it had caused.

Mrs K accepted this recommendation. Creation has responded to say that it disagrees and was entitled to add interest to the account, especially as Mrs K had not responded when asked for information.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. Having done so I find that I have come to the same conclusions as the adjudicator, for much the same reasons.

Mrs K agreed a repayment plan with Creation in 2004. Since that time she has made regular payments – so for the last nine years she has demonstrated that she is willing to repay her debt.

I can see from the statements provided that Creation stopped charging interest for some time – which was the right response to Mrs K's financial difficulties. And whilst that arrangement ran, Mrs K repaid about £1,300 from her original debt. But since Creation started charging interest again in 2007, Mrs K has reduced her debt by less than £200 despite paying significantly more than this in repayments. And the latest statements that I have seen show that her debt is currently increasing. That means that Mrs K will never repay her debt if her financial circumstances remain as they are. That is not a positive or sympathetic resolution to Mrs K's problem.

Creation says that the arrangements – where interest was stopped – came to an end because Mrs K did not send information in when asked. And it also says it charged a reduced rate of interest. But it did receive this information in due course and Mrs K has obviously been co-operating as she has made payments regularly for many years. I do not find that it is fair or reasonable for Creation to set interest at a rate that means Mrs K will pay indefinitely. The current arrangement is actually increasing that debt, which is also not a positive or sympathetic response.

That means that I agree with the adjudicator on this complaint. I find that a positive and sympathetic response would have been for Creation to continue charging no interest from 2007 onwards, as it did before. And Creation's approach will have caused Mrs K some unnecessary distress and inconvenience at a time when she was already struggling financially. I am satisfied that £100 is fair compensation for this.

my final decision

My decision is that I uphold this complaint. In full and final settlement I order Creation Financial Services Limited to refund all interest and other charges on Mrs K's account charged from 2007 to date, and re-work Mrs K's account to apply all payments to reduce her debt. It should then agree a repayment amount that reflects Mrs K's current circumstances, which it would be reasonable to review periodically. I also order Creation to pay Mrs K £100 compensation – directly, rather than in reduction of her debt if she so wishes – to reflect the distress and inconvenience she has suffered.

Susan Peters
ombudsman