

complaint

Mr B, represented by Mrs B, complains that PCS Credit Union Limited hasn't calculated the interest on his loan correctly. He wants this checked so he can pay off the loan early.

background

Mr B took out a loan in 2015 for £5,350 payable over 60 months with an annual percentage rate (APR) of 19.6% and a monthly rate of 1.5% interest. The total payable over the whole term would be £8,166.01 with monthly payments of £136.11.

Since the loan was taken out, Mr B has made regular payments but has missed some of his monthly payments. In 2017, he contacted PCS to find out how much it would cost him to pay the loan off early. But he was concerned that the amount required was too high and he thought PCS had made a mistake calculating the interest.

He complained to PCS but they said the amount was correct. So he came to this service. Mr and Mrs B said they weren't happy that PCS couldn't give them a daily interest rate so they could calculate how much he'd have to pay in the future. In response, PCS offered to issue a settlement statement and said the amount would be fixed for 30 days if Mr B wanted to pay off the loan in that time.

Our investigator couldn't see an error in the calculations and thought this offer was reasonable. PCS said at that stage the outstanding amount of the loan was £3316.80 fixed over the next 30 days. But Mr and Mrs B weren't happy with this so they asked for review by an ombudsman.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. From the information I've seen, it seems the interest has been calculated correctly on the loan.

Part of each monthly payment is used to pay off interest and part is used to reduce capital. In loans of this type, the interest payments at the start of the loan are higher than they are later on. This is because the interest is applied to a larger amount of capital at the beginning of the loan and the monthly payments are calculated to reflect that. When payments are missed, this will also mean the interest amounts increase because the capital is not reducing.

I can understand why Mr and Mrs B feel the amount of interest paid is high in proportion to the amount payable over the term of the loan. But I don't think PCS has made a mistake in its calculations.

PCS says it can't provide a daily interest rate breakdown but it has offered to issue a settlement letter with a repayment amount that's fixed for 30 days so Mr B can settle the account without daily interest changes. I think this is reasonable in all the circumstances. If Mr B accepts this decision, PCS should issue a new settlement letter valid for 30 days.

my final decision

For the reasons given above, it's my final decision that PCS Credit Union Limited should issue a settlement letter with an amount payable on Mr B's loan that is fixed for 30 days.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 26 February 2018.

Susie Alegre
ombudsman