complaint

Mr and Mrs D complain that Melbourne Mortgages Limited ("Melbourne") wrongly applied charges and interest to their secured loan account.

Mr and Mrs D are represented by a third party.

background

Mr and Mrs D took out a loan with Melbourne in 2006 for £8,775 over a term of 8 years. They missed payments in the first few months and this led to the start of possession proceedings. The arrears were cleared in April 2007 and payments maintained until early 2014 when the loan account fell into arrears again. Mr and Mrs D say:

- They were not told that interest and charges would be applied to their account if they didn't make repayments to their loan account early in the term. They did not receive notices required by the Consumer Credit Act. As a result, they did not have an opportunity to deal with the charges to avoid interest being applied. Default interest, fees and charges and related interest should be refunded.

- They had problems paying by standing order and asked about other payment methods. Melbourne did not provide the information, resulting in payments being missed.

- They were led to believe interest on the account had been frozen, and then found this was not the case. This interest should be refunded.

Melbourne said when the loan account fell into arrears it didn't need to give statutory notices but letters were sent. In January 2014 when the account fell into arrears again, an initial notice was produced advising Mr and Mrs D of the additional interest and charges.

As a gesture of goodwill, it said it would remove loan account charges totalling £270. It also said it would freeze the outstanding balance as long as Mr and Mrs D made their repayment of £159.05. Mr and Mrs D have agreed to pay this sum until the loan is cleared.

Our adjudicator said she couldn't look at anything which had happened before April 2007 and she thought that the business hadn't done anything wrong. She didn't uphold this complaint.

Mr and Mrs D didn't agree with this view. They said although we couldn't look at events before 6 April 2007, whilst the problems had happened during that period, the accrual of the compound interest occurred from April 2007 until February 2015 and the resulting bill was a period of time we could consider. They said they weren't financially astute and didn't realise what was happening. They thought if they carried on paying their loan then everything was progressing smoothly.

Mr and Mrs D also said that the statement Melbourne provided didn't make it clear that compound interest was being charged to their account. They asked that the matter be referred to an ombudsman. They accepted the view about the standing order payments but they wanted an ombudsman to look particularly at the accrual of compound interest from April 2007 until February 2015.

my findings

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

To be clear, I'm unable to look at the charges and interest or events before 6 April 2007 when this loan wasn't regulated by the Consumer Credit Act but I will look at events after the 6 April 2007.

Having looked at all the paperwork and what the parties say in this case, I agree with the adjudicator. Whilst I am sympathetic with Mr and Mrs D's situation, I don't uphold this complaint. I will explain why below.

The loan fell into arrears shortly after it was taken out. Melbourne began proceedings for possession and charges were added to the account.

I have carefully looked through the various statements from 6 April 2007. In particular the redemption report lists various charges, including litigation costs under the heading compound interest bearing charges. And the report also lists non-interest bearing charges which included charges for instructing solicitors, letters and bounced payment charges.

I can see that Mr and Mrs D had cleared their arrears in April 2007 but interest continued to accrue. Repayments continued to be made until January 2014 when Mr and Mrs D fell into difficulty again. Melbourne issued an arrears notice in February 2014.

I have also seen the loan statements on the account. These statements are addressed to Mr and Mrs D and have been sent to Mr and Mrs D every year from 2009 onwards. The loan was due to end in 2014.

I can see that Mr and Mrs D say they didn't realise what was happening and I appreciate that they say they weren't financially astute. But I think it's likely that they would have known how much money they took out for their loan originally and should have realised the date that the loan was due to come to an end. Mr and Mrs D could have queried the statements when they received them. I'm satisfied that it would have been reasonable for them to have questioned the interest and why the loan balance was still so high when they didn't have too much longer left until their loan should have ended.

Mr and Mrs D say that Melbourne shouldn't have asked for compound interest but that was allowed under the terms and conditions of the loan agreement they entered into and I don't think the business did anything wrong. So I can't uphold this complaint.

As a gesture of goodwill, Melbourne has removed £270 of charges added to Mr and Mrs D's account.

And it said it would freeze the loan account on the basis that Mr and Mrs D start to repay it. I think that's fair and I don't require Melbourne to do anything further.

To avoid any misunderstanding between Melbourne and Mr and Mrs D about what is required Mr and Mrs D and Melbourne Mortgages Limited should continue to speak to each other.

my final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs D to accept or reject my decision before 2 November 2015.

Nicola Woolf
ombudsman