

complaint

Mr F says that Cahoot acted unfairly in a number of ways, specifically:

- when it increased the interest rate on his flexible loan;
- when it withdrew a facility to enable him to borrow further money and did not amend his credit file to reflect the change to his credit limit; and,
- when it withdrew the facility to manage the account online.

background

Cahoot and its flexible loan

Cahoot was launched in 2000 as the internet division of Abbey National plc, which became a subsidiary of Banco Santander in 2004. It is now the internet division of Santander UK plc. I shall refer to Mr F's lender simply as Cahoot in this decision.

Cahoot's flexible loan was introduced in 2001. Apart from being internet-based, it had one unusual feature. Rather than borrowing a set amount over a period of time and making regular payments, borrowers could choose a credit limit (subject of course to Cahoot's approval) and draw against it from time to time; subject to a monthly minimum payment, they could then repay part or all of what they had borrowed when they chose to do so, without incurring any repayment charge. And if they wanted to borrow more, the loan allowed them to do so – up to the credit limit. No new credit checks were needed. To that extent the loan operated a little like a credit card account, except that there was no card and no facility, therefore, to make retail purchases.

Cahoot closed the flexible loan to new business in August 2006, but continued to operate it for existing customers such as Mr F.

Mr F's circumstances

Mr F took out a Cahoot flexible loan in 2003, at which time the interest rate was 6.35%. The interest rate increased subsequently, as set out below:

Date	New Rate
March 2004	6.50%
June 2004	6.77%
July 2004	6.97%
September 2004	7.44%
May 2005	8.20%
July 2006	8.55%
September 2006	8.77%
December 2006	14.00%
September 2007	14.84%
August 2008	16.61%

In early 2010 Cahoot wrote to Mr F (and other borrowers) to say that it was making changes to the loan. The effect was that he could not borrow any additional money, although he could still make payments in the same way and without penalty.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

the interest rate changes

The interest rate on the loan was variable and Mr F indicates he knew this when he took it out. But that does not mean Cahoot could change it at will. It could only do so if the loan terms allowed it to do so and if, and to the extent that, those terms complied with the relevant law.

The loan terms listed a number of reasons for which Cahoot might change the interest rate. They included:

- to maintain the competitiveness of the business as a whole, taking into account actual or expected market conditions;
- to reflect actual or expected changes in money market rates; and,
- to ensure that the business was run prudently.

Most of the interest rate rises which Mr F complains about took place while the Bank of England base rate was also rising. Cahoot says that the rises in the loan rate between 2004 and late-2006 were made to reflect changes in money market rates, because the base rate is an indication of money market rates. I accept that is the case and that those earlier interest rate changes were made to reflect those changes. It follows that they were made for a reason allowed by the loan terms.

However, even though the base rate continued to increase throughout late-2006 and 2007, the changes in December 2006, September 2007 and August 2008 were very much more than any increase in base rate at or around those times. And they cannot properly be said to reflect changes in money market rates generally. But Cahoot accepts that and says those changes were made to maintain competitiveness and to ensure that the business was run prudently.

Cahoot has explained this in more detail, as has the adjudicator and I do not intend on repeating all that has already been said. In summary though, Cahoot says the flexible loan as a whole was not profitable – mainly because of increases in underlying costs and bad debts – and I am satisfied, on balance, that this was so.

In the circumstances, it would not be unreasonable for Cahoot to rely on the provision which allows it to vary the interest rate in order to ensure that the business is run prudently. And, taking everything into account, I am not persuaded Cahoot acted unfairly or was not entitled to make rate increases on Mr F's account.

I also note that Mr F continued to draw down money up until 2010, well after the final rate increase took effect. This might, arguably, suggest he was happy with the rate he was paying. If he was not, he could have approached other lenders who may have offered credit at more favourable rates.

the removal of the additional borrowing facility

I can understand that Mr F may have wished to continue to use the flexible borrowing facility, which he had enjoyed for a number of years. As noted already, this was a rather unusual feature of the loan account when he chose it. However, the loan agreement and the loan terms both said that the loan limit would be what Cahoot decided it should be '*from time to time*'. The loan terms also said that either party could end the agreement by giving written notice. If Cahoot wanted to end the agreement it had to give 30 days' notice.

I have considered what Mr F has said about the protection he thinks the Consumer Credit Acts afford him. However, he has not pointed to a specific provision. Furthermore, as the loan agreement allowed Cahoot to change the loan limit and to end the agreement entirely, it must be the case that it was entitled to take the steps it did – effectively to reduce the loan limit to zero, whilst allowing Mr F to repay his existing borrowing on flexible terms.

alternative borrowing arrangements

Cahoot says it told its customers about its other loans whenever it notified them that the interest rate would be increasing. However, there was no obligation for Cahoot to accept any application it received and each customer would have been free to search the market for alternative arrangements that may have better suited their circumstances.

credit file

Mr F says that Cahoot should have adjusted the credit limit on his credit file when it withdrew the facility to borrow further money. He thinks the bank's failure to do so has affected his credit rating and may have prevented him from getting credit elsewhere.

Mr F did not raise this point when he initially made his complaint to Cahoot but, in my view, this issue is so closely connected with the removal of the flexible facility that it would not be fair either to ignore it or to require Mr F and Cahoot to address it as a separate complaint.

Firstly, I must correct Mr F's belief that Cahoot reported incorrect information to the credit reference agencies for five years. It is my understanding that the flexible borrowing facility was withdrawn only in 2010 and he last used this facility in February 2010.

Mr F has provided nothing to show he has applied for credit elsewhere or had his application refused since the flexible borrowing option was withdrawn. So the losses he is claiming seem somewhat hypothetical. But even if he could provide such evidence I would be unlikely to conclude that the information relating to his credit limit would have been the sole reason for his application being declined. After all, lenders base their decision to lend on many different factors and that decision will vary from lender to lender.

I understand Cahoot has already agreed to arrange for all customers' credit files to be amended to reflect the true position – that the line of credit is no longer available – and I consider this to be the appropriate course of action. As I cannot see that Mr F has suffered any loss or disadvantage as a result of the registration so far, I do not consider any payment of compensation is warranted.

my final decision

My final decision is that I do not uphold this complaint

Ruth Lewis
ombudsman