

## **complaint**

Mrs O complains that, despite making payments of just under £2,200 under a debt management plan, the amount she owes Creation Financial Services Limited has only reduced by just under £140. She wants the company to freeze interest on the debt.

## **background**

Mrs O had a credit card with Creation. She experienced financial difficulties and agreed a reduced payment plan with Creation at the end of 2009. At the time, Creation reduced the interest rate it charged. This still meant that virtually all of Mrs O's monthly repayment of about £50 went towards interest, and only about £3 reducing the debt.

Mrs O contacted Creation in early 2010 to raise her concerns about the interest she was paying. She was told that it could not be reduced further and that the arrangement was meant to be short term – for 6 or 12 months. Mrs O told Creation that her financial position would not change in the foreseeable future, and continued to make the agreed payments. She raised concerns again about the interest rate in early 2012 and was again told it could not be reduced. Mrs O contacted this service in May and Creation confirmed that the rate would not be reduced further.

### *our adjudicator's view*

The adjudicator recommended that this complaint should be upheld in part. He concluded that an arrangement that meant it would take Mrs O many tens of years to clear a debt was not fair or reasonable, and not in line with Section 9 (178) of the Lending Code, which states that customers in financial difficulty should be treated positively and sympathetically. He recommended that Creation refund 50% of the interest paid and that, going forwards, the interest rate should be further reduced or the account defaulted and interest frozen. Creation responded to say that a reduced payment arrangement is meant to be short term and it is not obliged to reduce interest further than it already has.

### *my provisional decision*

After considering all the evidence, I issued a provisional decision on this complaint to Mrs O and to Creation Financial Services Limited in September 2013. I summarise my findings:

Mrs O is suffering from financial difficulties and has payment arrangements with a number of finance providers through a debt management plan. That shows me that she is not trying to avoid her legitimate debts – as does the fact that she has made about four years of payments under her arrangement with Creation.

Creation says that it responded positively and sympathetically to Mrs O's situation when it arranged a repayment plan and reduced the interest rate on her account. It also says that such arrangements are meant to be short term – for 6-12 months. But Mrs O has repeatedly told Creation that her financial position is unlikely to improve in the foreseeable future. Creation's own records show that she was saying this in early 2010 and Mrs O says her situation remains unchanged. Despite that, Creation's only recent response had been to agree a small increase – about £5 - in monthly payments. With the increase, Mrs O would need to pay for about another 20 years to clear her debt.

I am satisfied that this is actually a long term arrangement, as it has been running for well over three years and has been reviewed. I am also satisfied that Creation has known about Mrs O's financial situation since the arrangement began, and that it is unlikely to change.

I do not find that Creation's stance, which means it will take Mrs O about 25 years to clear a debt of about £5,000, is positive or sympathetic. It offers Mrs O no prospect of clearing her debt over an acceptable period of time. Even without interest from 2009 onwards, it will take Mrs O about seven years to clear her original debt. This seems to me to be fair and reasonable as she has shown her willingness to meet her obligation to Creation by making payments for the last four years.

I find that the recommendations given by the adjudicator do not go far enough. A positive and sympathetic response would have been to stop charging interest in 2009 and set a repayment plan that allows Mrs O to clear the debt over a reasonable number of years. That arrangement would show on Mrs O's records held by credit reference agencies, as, no doubt, her current arrangement does.

I was minded to uphold this complaint and order Creation Financial Services Limited to refund any interest and fees charged on the account since the arrangement began in late 2009 and to cancel interest and fees going forwards. It should provide Mrs O with a statement showing the reduced balance owing and credit Mrs O's current monthly payments – about £56 – against this. It is reasonable that Creation review the arrangement – say once a year – to check that Mrs O's financial situation remains unchanged.

### **my findings**

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

Both parties have indicated that they have nothing further to add to this complaint.

### **my final decision**

My final decision is that I uphold this complaint. In full and final settlement, I order Creation Financial Services Limited to:

- Refund all interest and charges since the repayment arrangement was made in late 2009 and provide a statement showing the amount owing at that time.
- Recalculate the amount Mrs O owes after crediting all payments made by Mrs O since the arrangement began against the recalculated debt.
- Agree a reasonable review programme with Mrs O.

Susan Peters  
**ombudsman**