

## **complaint**

Miss F complains about Automobile Association Personal Finance Limited. She says that although she had paid a settlement figure she had been given for a loan, she was later told that she still owed money because the figure had been wrong. She would like debt collection action to end, to ensure there was no adverse impact on her credit file and full and correct details of the amount owing.

## **background**

Miss F took out a loan and was paying for PPI on that. She made a claim for PPI compensation. At about the same time as she received a cheque from the AA for that, she enquired about paying off the remainder of the loan. She was given a settlement figure of about £900. She paid that amount in December 2011. But that figure had been calculated on the assumption that the PPI payment would pay off part of the account, rather than being paid direct to Miss F. So Miss F actually owed considerably more than the settlement figure she was given. The AA then treated the settlement payment made as being several months' payment in advance, rather than a settlement. But it only contacted Miss F again in May 2012 under debt collection procedures, when it considered that the loan account had gone into arrears.

The adjudicator said that he understood why Miss F was confused about the amount owing as she had been given several different figures. He was satisfied that the correct amount was £4,931.24, which was what was owed in December 2011. The AA had offered £250 in compensation for the distress and inconvenience it had caused - particularly because it did not contact her before May 2012. It had also agreed to remove a default record from Miss F's credit file if she paid the outstanding balance in full. He considered that fair and reasonable.

Miss F did not dispute that there was money owing but disputed the amount. She calculated that the balance in December 2011 had been £2,721.25. She based that on her statement saying the balance was £4,288.02 at the start of November 2011 and because she had paid a further £1,566.27 in November and December. She also referred to a settlement quotation she had obtained in August 2011, which was less than she was now being asked to pay in total to settle as at December 2011.

The AA said it would only remove the default registration if Miss F paid off the account in full. (It had originally offered either that she could settle in full, or pay the arrears and continue making the new monthly payments - without PPI - until the end of the loan.)

## **my findings**

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

I can see why it will feel particularly odd to Miss F that she has apparently been told she owed more in December 2011 than she did in November 2011 even though she had paid over £1,000 into the account in the interim. However, I am afraid that her method of calculating the outstanding amount based on the November balance figure was not appropriate for this type of loan. It is a pity that no-one has explained this in more detail to her before.

The figure of £4,288.02 on her November statement was just the capital sum remaining to be paid back. Interest was then added each month, and her payments were used first to pay the interest and then to reduce the capital. But it was not the amount she would have needed to pay if she had repaid the loan in November 2011.

That is because the loan was of a (quite common) variety where Miss F was committed not just to paying the interest incurred until she paid off the capital sum, but the total interest which would have been incurred over the *whole intended period* of the loan (but with some rebate - but not all the interest - if she settled the account early). So an early settlement figure would always be more than the amount shown on a statement as the balance. The agreement which she signed, gives as an illustration that if she paid the loan back three-quarters of the way through, she would have to pay £6,452.78. Her loan period was rather less than three-quarters complete by December 2011.

The settlement figure Miss F obtained in August 2011 appears to me to have been miscalculated, and asked her to pay less than was then due.

But the AA's method of calculating the amount owing for a settlement in December 2011 was correct. It worked out the total amount (capital and interest) still due to be paid during the rest of the term of the loan after December 2011 and then gave the relevant interest rebate before deducting the settlement payment Miss F has already made. I consider that Miss F did still owe a further £4,931.24 if she had wished to settle in December 2011. It is reasonable in the circumstances for her still to be allowed to settle the account at that level, even though other charges and interest have been incurred since.

However, I can understand why Miss F did not make the payments requested. AA made more than one mistake and provided confusing figures, and she did not have a clear explanation why her method of calculation, which at first glance appears logical, was not correct. Guidance from the Information Commissioner on registration of defaults says:

*If we conclude that there is a genuine, reasonable and unresolved dispute between the borrower and lender, then we are likely to find that personal data have been processed unfairly if a default has been filed. Defaults filed in these circumstances may also be inadequate for the purpose of credit referencing in that they do not provide meaningful information about the creditworthiness of the customer.*

In the circumstances here I cannot see that it was fair for the AA to record a default on the account whilst the amount owing was under active dispute, and I am not convinced that a default registration provides accurate information about Miss F's creditworthiness.

I consider that the offer of £250 in compensation for distress and inconvenience is fair and reasonable.

### **my final decision**

My decision is that I uphold the complaint in part. In full and final settlement, I order Automobile Association Personal Finance Limited to:

- arrange for the default recorded on Miss F's credit file to be removed;
- pay Miss F £250 in compensation;
- allow her either to:

- settle the account in full if she pays £4,931.24, or
- pay the arrears on the loan at the date of settlement (but not any additional charges or additional interest incurred because she did not pay during the dispute) and make monthly payments until the date the loan was due to come to an end.

Hilary Bainbridge  
**ombudsman**