complaint

Mr H complains that Bank of Scotland plc (trading under its Halifax brand) has applied payments to credit card balance transfers in a way which means that he pays more interest than he should.

background

Mr H has made a number of interest-free balance transfers to his Halifax credit card account from other accounts. There have been four which are relevant to this complaint, namely:

- in January 2017 a transfer of £1,302.47, expiring in January 2019;
- in April 2017 a transfer of £5,766.48, expiring in June 2019;
- in July 2017 a transfer of £2,639, expiring in October 2018; and
- in October 2018, a transfer of £1,236 expiring in November 2019.

In each case, the balance transfer figure includes the transfer fee.

When Mr H received his credit card statement for September 2018, he noticed that it included notification that interest would be applied to the whole of the July 2017 balance transfer unless he repaid it by 14 October 2018. Although he'd been making monthly payments, they'd been applied against the January and April 2017 balance transfers, but he still owed the full amount of the July 2017 balance transfer – that is, £2,639.

Mr H thought this must be an error. Halifax's literature said that it would apply payments against the most expensive part of the account balance first, so it should have been applying his payments against the balance transfer that expired earliest.

Halifax explained that, once the July 2017 transfer started to attract interest, any payments would be applied against that part of Mr H's overall balance until it had been repaid. In the meantime, however, it had been applying payments in line with the account terms. They said that, where there were balances of the same type incurring the same rate of interest, payments would be applied against the *oldest* balance first.

Mr H said he didn't think that was fair, because it would cost him more. If Halifax had applied his payments against the July 2017 balance transfer first, it would have been significantly less than it was by October 2018, and any interest applied after that date would have been similarly reduced. Halifax maintained though that it had simply operated the account in the way it had said it would in the terms and conditions, and that Mr H hadn't been treated unfairly.

Mr H referred his complaint to this service, where one of our investigators considered it. He agreed with Halifax though, and so Mr H asked that an ombudsman look at the case, as the final stage in our process.

my findings

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

For a number of years credit card businesses have been required to allocate payments first to that part of an overall debt that is subject to the highest rate of interest, then to the next highest rate, and so on. That requirement is currently set out in the Consumer Credit sourcebook (or CONC) of the regulator's Handbook at CONC 6.7.4. That rule sought to address the previous practice of some lenders to allocate payments against, for example, interest-free balance transfers, while leaving cash withdrawal balances to incur interest at a relatively high rate.

Halifax says its terms and conditions achieve the aim of the relevant regulatory rules. Those terms say, at section B7.4:

We use your payments to clear any overdue amounts before we apply them to your latest minimum payment.

We will reduce the amount you owe in the following order:

- *any overdue amounts from previous statements; then*
- *the remaining balance on your statement; then*
- *any recent transactions not yet shown on your statement.*

We use your payments to pay off balances charged at the highest interest rate first and so on down to balances with the lowest interest rates. This means the more expensive balances are always paid off first.

If there is more than one type of balance at the same interest rate, they are paid off in the following order: cash transactions, purchases, balance transfers and money transfers, and then default charges (plus any interest or charges incurred as a result of those balances). ***For each type of balance, your payments will pay off the oldest balance (and related fees, charges or insurance) first****.*

The emphasis is mine.

Having considered the matter carefully, I take the view that the account terms do reflect the requirements of CONC 6.7.4. It also seems to me that Halifax has applied them as it said it would in Mr H's case. Until October 2018, all the balances on his account were interest-free, and so Halifax applied his payments against the oldest balance first – namely, the January 2017 balance transfer.

I do understand Mr H's argument here, of course. His July 2017 balance transfer wasn't the oldest, but – because it was the balance with the earliest end to the interest-free period – it would be the first to attract interest. And Mr H is right to point out that a different way of allocating payments would have been less expensive for him in the long run. Neither the regulator's rules nor the account terms, however, require Halifax to make that kind of detailed calculation or to anticipate how the account might be managed in the future.

Mr H says that at least one other provider allocates payments first against balance transfers that are due to expire first, rather than those which were created first. I don't believe however that means that Halifax should do the same. Nor would that necessarily mean a customer would pay less overall, although I accept it might have been better for Mr H. The overall cost would depend on a number of things, including other use of the account and the level of the balance transfers.

I'm satisfied therefore that Halifax allocated payments in the way it said it would. Until October 2018 interest was applied to all of Mr H's debt at the same rate of 0%. The regulator's rules say only that payments should be allocated first "… *to the debt subject to the highest rate of interest*…" At the time of the allocations which led to Mr H's complaint, no part of his debt was subject to a higher rate of interest than any other. Overall, therefore, I'm not persuaded that the way Halifax allocated those payments was unfair.

Finally, Mr H says too that his September 2018 card statement arrived late – in fact, a month after its date. Halifax acknowledges that it had problems with issuing statements. Whilst this might have been frustrating for Mr H, I don't believe it warrants any compensation. The statement still arrived well before the payment due date, and in any event Mr H had set up a direct debit, so payment would be made on time, whether or not he received the statement.

my final decision

My final decision is that I don't require Bank of Scotland plc to do anything further to resolve Mr H's complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 16 September 2019.

Michael Ingram
ombudsman