

complaint

Miss N complains that Microcredit Limited has not treated her fairly. She says it did not respond positively and sympathetically to her financial difficulties, applying excessive charges to her debt and taking aggressive debt collection action. She says the business did not respond when she tried to contact it about her financial difficulties, and that payments made towards the debt were not recorded on statements. She would like the charges to be refunded and for the account to be closed.

background

In mid-February 2012, Miss N took out a loan with Microcredit for £100, due for repayment at the end of the month. She was not able to repay by this date, and when the business attempted to debit the repayment on 1 March 2012, it charged £25 for the failed attempt. After this point, Microcredit applied further interest and charges to the account, including for each unsuccessful attempt to debit the account. It also sent Miss N letters saying the matter would be referred "to our doorstep collection agent to recover this debt as they see fit" and referring to upcoming legal action (which was not actually in train).

In early April 2012, Miss N contacted Microcredit through its website to request a repayment arrangement, but received an automated response that this would not be possible. She was charged £100 "debt recovery costs" for doorstep debt collection activity which did not take place and when she asked for a breakdown of fees and charges, was not provided with one. On 24 April 2012, Miss N made it clear that she was unhappy at Microcredit's conduct, but her complaint was not responded to until after the matter was referred to this service.

The adjudicator recommended that the complaint should be upheld. He considered that the business should have been aware that Miss N was experiencing financial difficulties and should have responded positively and sympathetically. He considered that the tone of debt collection activity was threatening and unreasonable, and that the business should not have continued its attempts to take payments, charging a fee each time, when there was no indication that Miss N could pay.

The adjudicator recommended that Microcredit should refund most interest and charges applied to the account and pay Miss N £150 compensation for distress and inconvenience. Microcredit does not agree, saying that the interest and charges were applied in line with the account terms and conditions, that Miss N should have contacted it sooner and more directly, and that its attempts to debit the account were authorised.

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 have reviewed all correspondence between Miss N and Microcredit, and the terms of the loan itself. Having done so, I consider that the business did not treat Miss N fairly or reasonably. My reasons for this are set out, below.

Positive and sympathetic response to financial difficulties

A lender is expected to respond positively and sympathetically when a customer reports financial difficulties. Microcredit made numerous attempts to debit Miss N's account. While

I accept that the first attempt, the day after the loan was due for repayment, was reasonable, I consider that subsequent unsuccessful attempts should reasonably have alerted the business to her financial difficulties.

On 7 April 2012, Miss N tried to contact Microcredit to ask for interest on the account to be frozen and for a repayment plan to be set up to clear the debt. However, she received an automated response that this would not be possible. I do not consider this to have been an acceptable answer to her request, and it shows that the business did not consider her financial difficulties and how it should respond to them, contrary to its obligations under the Lending Code.

The business did not follow-up this contact in any way, instead it continued to apply interest and charges to the account, and to pursue debt collection activity. This had the effect of dramatically increasing the size of the debt, and causing significant distress to Miss N.

Microcredit has said it is contractually able to apply interest and charges and to seek repayment of the debt. However, this is subject to its obligation to respond positively and sympathetically where a customer is in financial difficulties. I find it did not do this, and I consider compensation for this failing to be appropriate.

Inappropriate collections activity

The business sent Miss N several letters which were clearly designed to pressure her into repaying the debt through use of a threatening tone. The first of these said Microcredit would refer the matter to its debt collections, who would recover the debt "as they see fit". I consider this to have been completely inappropriate, as it is clearly intended to intimidate Miss N into paying, regardless of her circumstances or priority debts.

The business also sent a letter which referred to "forthcoming" legal action, and legal charges which would be applied to the account. As no legal action had actually been started, I again consider this to have been misleading and designed to pressure Miss N into repaying the debt.

Microcredit also applied a £100 charge for doorstep collections visits. Miss N has said no such visits took place. I consider such a charge to be unreasonable, in that it would increase the debt of a borrower known to be in financial difficulties. That Microcredit cannot show that any such visits took place also means the debt has been incorrectly applied to the account.

Provision of information and response to complaint

Miss N repeatedly requested information from Microcredit about the fees and charges applied to the account. This was not provided, which I consider to be unreasonable. She was entitled to have an explanation of what she was being charged, and when the interest and charges were applied, and of the status of the account. In not providing this information, Microcredit made it more difficult for her to manage the account.

On 24 April 2012, Miss N wrote to Microcredit stating her clear dissatisfaction with how it had treated her. The business did not address her concerns until she referred the matter to this service. I consider this to have been unreasonable. Had Microcredit investigated Miss N's concerns at an earlier stage, it could have prevented Miss N's debt from increasing further, and reduced the amount of distress and inconvenience she experienced.

my final decision

For the reasons set out above, my final decision is that I uphold this complaint. In full and final settlement of it, I order Microcredit Limited to:

- Refund all charges other than the £25 charge applied on 1 March 2012;
- Refund all interest from 7 April 2012;
- Close the account and pay any surplus to Miss N, plus interest at a rate of 8% simple from the date of payment to the date of settlement of this complaint;
- Amend Miss N's credit file to show the account as settled, with a date and amount of settlement reflecting what the balance would have been if the interest and charges had been frozen as above;
- Pay Miss N an additional £150 compensation for distress and inconvenience.

If the account is owned by another company, then Microcredit Limited will need to arrange for the above to take place.

Catherine Wolthuizen
ombudsman