

## **Complaint**

Mr S complains that Everyday Lending Limited (ELL) continued to apply interest to his loan when he was on a debt management plan (DMP) meaning his debt wasn't being reduced.

## **Background**

Mr S took out a loan with ELL in May 2015 over a term of 60 months.

In September 2017 Mr S found himself experiencing financial difficulties and entered into a DMP. The debt management company contacted ELL on Mr S's behalf proposing a payment plan. They asked ELL to consider stopping or reducing interest charges.

ELL wrote to Mr S on 23 October 2017. The letter confirmed that they were accepting a revised monthly payment for a further six months. The letter said that a review would take place after six months if payments weren't maintained. The letter informed Mr S that it would take longer to pay the loan and told him it would be in his best interests to revert to the original payments as soon as possible.

Mr S explained that in September 2018 he became worried that the overall size of the debt with ELL wasn't being reduced by the payments he was making. He complained to ELL that they should have frozen interest on his account in response to his financial difficulties.

In response they explained in general terms how the approach they take complies with industry rules. The letter didn't refer to specific details of Mr S's loan or explain what they'd done in his case or why. The letter explained ELL were not obliged to freeze interest on loans though and that they'd only do that for loans that had defaulted.

Mr S wasn't satisfied with this response and brought his complaint to us. He complained that ELL refused to freeze interest, had front loaded the interest on his loan and that he didn't think his DMP was reducing his debt. He didn't understand why ELL had not frozen interest as he thought he'd defaulted in September 2017 when he missed a payment.

Our investigator felt that ELL had acted reasonably when they accepted the DMP. But he felt that ELL should have done more to help when Mr S contacted them in 2018 requesting an interest freeze. Our investigator thought that the monthly payments under the DMP were contributing more to the interest charges than the loan balance and stated that it was reasonably clear that the level of debt was increasing because of the interest charges. Because of this he felt that it would've been fairer if ELL had frozen interest. He recommended that ELL refund the interest added to the loan from September 2018, and that interest be frozen until Mr S could afford to make increased payments.

ELL disagreed and asked for an ombudsman's decision. ELL felt they'd treated Mr S fairly. They said that the DMP meant that interest was reduced from 52.9% to 16.15% a year, and the account was fixed so that Mr S wouldn't pay back more than was on the original contract. They pointed out that if Mr S increased payments, he may end up paying less interest than would have originally been the case.

## **My provisional decision**

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

I'm of the view that ELL probably made enough allowances in response to Mr S's financial difficulties when contacted about the debt management plan. I'm minded to say though that they didn't do enough to communicate this to Mr S. I'll explain why.

Mr S brought this complaint to us because he was really worried that his debt with ELL was increasing and putting his DMP at risk. Whatever correspondence and explanations that he'd been given by ELL hadn't addressed his concerns. Our investigator concluded that the reduced payments wouldn't have been paying off the debt. I think this was wrong however.

In ELL's response to our investigator's view they spelled out more clearly what they were doing with Mr S's loan. They provided reassurance that although the term would be longer, Mr S would never end up paying more than would have been the case on the original loan.

ELL clarified that the original loan for £4,000 when paid back over 60 months would have meant payments totalling £11,607.60. When Mr S contacted ELL in September 2017 he'd made repayments totalling £5,223.42. In effect the balance on the original debt were it to continue being paid off as agreed would have been £6,384.18. ELL explained that they'd agreed monthly payments of £60.19 for 106 months. This would have meant that Mr S would be paying his loan off over a much longer period, but that his debt would continue to be reducing each year. The subsequent statements for the loan confirmed that the debt was reducing in line with this revised payment schedule. I couldn't find a clear explanation of this outside of ELL's correspondence with the Financial Ombudsman Service though.

Mr S was sent annual statements for his loan, so I checked these to understand what had happened. They showed the monthly payments, the interest added and the balance of the loan at the end of each year. I'm satisfied that even after the DMP was in place the debt did continue to be reduced. The statements confirm that the interest wasn't front loaded. The interest that was added after the DMP reduced significantly. So I think they show interest was applied to the loan at a lower yearly rate.

The statements also show that no penalty charge was added when Mr S missed a payment in September 2017 before the start of his DMP. Within the terms of the loan ELL could have applied the charge for a late payment and in waiving it showed consideration for Mr S's circumstances. ELL did not default the loan for the missed payment which I think was fair. He had missed just one payment and it was clear from the DMP why. It was still possible for Mr S to continue paying off his loan and defaulting it would have adversely affected Mr S's credit rating.

We expect businesses to treat customers in financial difficulty in a fair and reasonable way. We'd expect a business to help a customer find a way to pay off their debt that was fair and affordable. The CONC rules, that govern industry conduct, give a range of options for businesses to consider where customers are in financial hardship. Freezing interest was amongst those options but it was for ELL to decide what the most appropriate ways to help Mr S were in the circumstances. I can't say ELL had to freeze interest but need to be satisfied that what they did do was fair and reasonable.

I'm minded to say that what ELL did with the debt was reasonable. Affordable terms were put in place and Mr S's debt continued to be reduced on what were effectively rescheduled payments.

Whilst I'm minded to say that ELL did enough to help Mr S manage his debt with them, I don't think they made this clear to him. I don't feel the letter he was sent accepting the DMP

explained what would happen. It implied it was a temporary measure and did nothing to provide any reassurance to Mr S about interest on the loan.

I don't think the statements made it clear to Mr S either. They said interest would continue to be applied daily and the only interest rate shown on the statement was still 52.9%. Each statement had a warning at the bottom telling Mr S that making reduced payments (including on a DMP) would increase the total amount payable over the term. The statements did show an increase in the term from 60 months after the DMP was agreed, but in general I am of the view that they added to the confusion.

ELL had an opportunity to make the position clearer when Mr S complained but their response failed to do that. I asked what ELL did to let Mr S know what was happening with his loan. I was told that they think the onus was on the debt management company to explain the details as they were acting on his behalf. I don't agree. Mr S was still their customer.

For the above reasons I'm minded to disagree with the view of our investigator. I know Mr S will be disappointed with this change in view, but I don't think ELL need to do anything to put things right with the loan. I think it was unfair not to explain what they were doing to help Mr S which caused him a great deal of worry over a long period of time. I think Mr S should be paid compensation for the trouble and upset ELL caused. I think £150 would be reasonable in the circumstances.

### **The response to my provisional decision**

Mr S was disappointed but had nothing else to be taken into consideration.

ELL had no further comments.

### **My findings**

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

Mr S and ELL have both had the opportunity to come back to me with anything else that they wanted me to consider following my provisional decision. I have therefore considered all available information in this complaint and for the reasons given above my provisional decision remains unchanged.

### **My final decision**

For the reasons that I've given, I partially uphold this complaint, and direct Everyday Lending Limited to pay Mr S £150 for the distress and inconvenience caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 28 February 2020.

Gary Lane  
**Ombudsman**