

complaint

Mr R complains that Microcredit Limited did not respond positively or sympathetically to his financial difficulties when he was unable to repay a short-term loan.

background

Mr R took out a loan with Microcredit in October 2011. The terms of the loan meant he needed to repay the loan, plus interest, on 1st November 2011.

Mr R was unable to repay the loan as planned and contacted a debt charity for help. He wrote to Microcredit in December 2011 explaining that he was in financial difficulties and unable to repay the loan. He also said that the charity was setting up a debt management plan for him.

Microcredit continued to apply interest and charges to the account until the end of February 2012 when it passed the account to its debt collection agent. Following this Service's involvement, Microcredit agreed to remove some charges from the account; however, Mr R is unhappy with the interest that has been added to the original loan.

Our adjudicator recommended that the complaint be upheld. He concluded that Microcredit had not responded positively or sympathetically to Mr R's financial difficulties and that adding interest and charges to the debt once it was told of his situation was unfair. As well as the charges Microcredit had agreed to remove, he recommended that Microcredit remove interest added to the debt after Mr R wrote to it in December 2011 and pay Mr R £100 for the distress and inconvenience this matter has caused him.

Microcredit did not accept those conclusions so the matter was referred to me for review and determination.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. Having done so, I uphold this complaint. I have, however, amended the redress our adjudicator recommended in this case.

Microcredit has also confirmed that it received Mr R's letter on 9th December 2011. This says *"I am in financial difficulties and am not able to meet my normal monthly payments... [the debt charity] is setting up a debt management plan for me and they will send you an offer of payment along with a copy of my budget and list of creditors"*.

Microcredit heard nothing more from Mr R and continued to add interest of £2.50 per day until the end of February 2012. It recorded a default on the account and referred it to its debt collection agent. Mr R's charity confirms that *"no contact was made with [Microcredit] in direct reference to [Mr R's] debt"* because of ongoing problems in its own relationship with Microcredit. It subsequently agreed a reduced payment plan with Microcredit's debt collection agent.

In the circumstances, I do not consider continuing to add daily interest to the debt was appropriate given Mr R's financial difficulties. Whilst I accept that Microcredit heard nothing from Mr R's charity, simply letting the debt increase without taking further action was not in line with the Office of Fair Trading (OFT)'s debt collection guidance. I find that Microcredit

should remove any interest added to the debt after Mr R told it that he was in financial difficulties. This reduces the balance on the account, at 9th December 2011, to £407.50:

- Loan principal: £250
- Daily interest: £142.50
- Overdue charge 1: £25
- Overdue charge 2: £55
- Payments made: (£65)

For the avoidance of doubt, I am satisfied that Microcredit was entitled to charge the two overdue penalties of £25 and £55 in November in line with its terms and conditions and given Mr R's earlier agreement to pay off the debt. Mr R has since made monthly payments to Microcredit's debt collection agent. Microcredit should, therefore, further reduce the debt by these payments and send Mr R an up-to-date statement showing the outstanding balance.

Our adjudicator recommended that Microcredit also pay Mr R £100 to reflect the distress and inconvenience this matter has caused him. I accept that Mr R has suffered a certain amount of distress; however, I also understand why Microcredit does not agree with this award. Mr R had explicitly said that the charity would contact Microcredit to discuss a repayment plan; the charity has conceded that it did not do so.

In the circumstances, I consider there to be some fault on both sides here. I find that reducing the debt to the balance at 9th December 2011 (as set out above) is an appropriate remedy in this case. I make no other order or award.

my final decision

My final decision is that I uphold this complaint and order Microcredit Limited to:

- remove all interest applied to the debt after 9th December 2011, as well as remove the "*debt recovery fee*" and "*debit attempt fees*"; and
- send Mr R an up-to-date statement showing the outstanding balance on the account.

Simon Begley
ombudsman