

complaint

Mrs C complains that Creation Financial Services Limited didn't apply a default to her credit card account when she entered financial difficulties. So after six years her credit file still shows a debt management plan that she thinks should have dropped off.

background

Mrs C experienced financial difficulties in 2009. All her other creditors set up repayment plans and recorded defaults except for Creation. It set up a reduced interest arrangement and charged interest on this from 2010 to 2014. It then stopped charging interest and has now passed the account to a collection agency. So six years later, the Creation payment arrangement is still showing on Mrs C's credit file.

Our adjudicator recommended that the complaint should be upheld in part. She thought there was nothing wrong in Creation not defaulting the account and it wasn't obliged to freeze interest. But she thought it hadn't treated Mrs C in a positive and sympathetic manner by charging interest. She thought this should be refunded to her.

Creation replied that it had acted positively and sympathetically by reducing the interest it charged Mrs C. It offered to refund interest for those months where Mrs C was unable to pay £1.00 towards her account. This totalled £112.70.

my findings

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

I can see that Mrs C feels that she has been treated unfairly as all her other debts which were defaulted have dropped off her credit file after six years. She is now having trouble obtaining credit elsewhere. She feels that she has been treated worse than someone who hadn't tried to make any repayments.

Creation said that it wasn't obliged to freeze or refund interest. It said that keeping the account open rather than defaulting it had benefited Mrs C as this was better for her credit file.

I agree that Creation wasn't obliged to default the account. Mrs C was in a debt management plan and met the requirements for its maintenance for the large part. So a default wasn't triggered. The debt has now been sold on and it's for Mrs C to make repayment arrangements with her new creditor.

Creation froze interest on the account for the first year Mrs C was in difficulties. It then charged her a reduced rate. It said its policy now is to freeze interest in such circumstances.

Our adjudicator calculated that at the rate Mrs C was repaying her debt to Creation when interest was added it would have taken over 100 years to repay it in full. This was when interest was reduced. Now that the account has been sold on and interest frozen, it will take nearly 24 years for her to clear the balance. In the time Mrs C was on the debt management plan she paid Creation over £1,000 in interest.

I agree that Creation isn't obliged to freeze or refund interest. But it is obliged to treat consumers in financial difficulties positively and sympathetically. Mrs C was obviously struggling to make her repayments. When interest was being charged, the repayments barely covered the interest added.

Creation has now offered to refund the interest charged for those months where Mrs C was unable to pay £1.00 towards her account. But I don't think this goes far enough. I think the interest charged at the time Mrs C was on a repayment plan was onerous. It was out of proportion to her possible repayments. I think Creation should now refund this amount in full.

my final decision

My final decision is that I uphold this complaint in part. I require Creation Financial Services Limited to refund Mrs C the interest she paid on her account from November 2010 to April 2014.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 12 August 2016.

Phillip Berechree
ombudsman