

complaint

Mr U has complained that Microcredit Limited, trading as MiniCredit.co.uk has applied excessive charges to a loan of £220 he took out in November 2012.

background

Mr U borrowed £220 from MiniCredit in November 2012. The total amount repayable was £283.80 within 30 days. Mr U entered into a debt management plan in December 2012.

As MiniCredit felt that Mr U had approached a debt management company so soon after taking out the loan, they continued to add interest and charges. This resulted in a total debt of £2,367.80 which MiniCredit has since passed to another company to recover the money.

Mr U complained to the ombudsman service about the charges added to this loan. In negotiating a resolution with our adjudicator, MiniCredit confirmed they would be willing to settle the account for £444.60. When they realised that Mr U had already paid in excess of this amount, they withdrew this offer. They now consider that the original credit agreement allowed them to levy charges of £1,640 as Mr U cancelled his debit card and they were not able to collect payment in December 2012. They are willing to cancel any outstanding balance.

Mr U has asked an ombudsman to review his case.

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 consider there to be only one issue at the heart of this case: is it fair for MiniCredit to charge a total of £2,367.80 when Mr U took out a loan for £220?

When we originally put this complaint to MiniCredit, they confirmed that they were keen “*to resolve the complaint in a fair and reasonable way*” and were prepared to accept a payment of £444.60 for the debt. Whilst I appreciate that they weren’t immediately aware that Mr U had already paid £1,743.58, I do agree with them that this figure seems fair and reasonable. It is not always fair to apply standards retrospectively but I note this figure is just slightly more than the total cost cap of 100% which will be applicable from January 2015 – but not by much. I am satisfied that £444.60 is the fair and reasonable amount for Mr U to pay for the loan he took out in November 2012.

We put MiniCredit’s offer to Mr U and he was pleased to accept this. Imagine how upset he must have been when we had to tell him that MiniCredit had withdrawn the offer. I am satisfied that they only did this when they realised that Mr U had already paid well in excess of this amount.

MiniCredit has put forward a number of arguments in support of their revised position:

- As Mr U deliberately obtained a loan from them knowing that he was about to enter into a debt management plan, there was no basis for them to suspend interest and charges;

- Their credit agreement is specific about the charges that arise when a payment is missed. These include charges for the payment being overdue and fees for the failed attempts to collect payment by debit card; and
- As Mr U cancelled his debit card, they are permitted to add potential debit attempt fees until the 120th overdue day on his loan.

I reviewed the terms of Mr U's loan agreement and the charges that MiniCredit applied after Mr U cancelled his debit card. Firstly it is possible to regard these as onerous terms. As such I would expect these to have been drawn to Mr U's explicit attention after any cancellation. I have seen nothing to indicate this occurred. I even attempted to calculate the amount due based on what MiniCredit eventually levied on Mr U. I have concluded that I do not know how £1,640 worth of fees were calculated nor do I consider those fees to be fair or reasonable.

I consider MiniCredit's original offer to be fair and reasonable and MiniCredit must now arrange repayment to Mr U of £1298.98. I expect them to liaise with the debt recovery company and ensure that Mr U's credit records are updated to show that he has settled this debt in full.

I am disappointed at MiniCredit's actions in withdrawing their offer to Mr U after he had accepted this. I do not consider their behaviour to have been fair and therefore I am satisfied that they should pay Mr U an additional £100 in redress for their actions and the additional worry and inconvenience this caused him.

my final decision

For the reasons set out above, my final decision is to uphold Mr U's complaint and instruct Microcredit Limited, trading as MiniCredit.co.uk, to:

- Accept £444.60 as the total amount payable under the loan that Mr U took out in November 2012;
- Repay him the money he has paid over and above this amount;
- Add 8% simple interest to this from the date Mr U was debited these amounts;
- Pay him £100 additional redress; and
- Ensure that Mr U's credit record is updated to show this debt as settled in full.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr U to accept or reject my decision before 22 December 2014.

Sandra Quinn
ombudsman