

## **complaint**

Mr M complains about London Community Credit Union Limited ("LCCU"), regarding charges applied to his loan account and difficulties he experienced in making payments on his loan.

## **background**

Mr M has held a savings account with LCCU for some time, and in mid-2017 Mr M applied for a personal loan.

The loan agreement signed by Mr M set out that interest was repayable on the loan at the rate of 2.00% per month fixed, which it summed up as 26.8% APR.

Attached to the loan agreement was a schedule setting out repayments and interest calculations as the loan repayment progressed. These set out repayments and interest calculations on the 5<sup>th</sup> of each month.

The agreement also set out that in the case of default, the borrower agreed that they would be charged £5 each time a default notice is issued.

In June 2017, LCCU released loan funds to Mr M of £2600. His first repayment of around £140 was due a month later, with a further 23 monthly repayments thereafter.

LCCU completed a direct debit instruction for Mr M in June 2017.

This attempted to take the first repayment in July but it was returned. LCCU applied an unpaid direct debit fee to Mr M's account. LCCU wrote to Mr M about the failed payment and added charges for each letter.

LCCU attempted to take the direct debit again in August but this was returned again. LCCU applied another fee to Mr M's account.

Mr M spoke with LCCU after the second failed direct debit collection and completed a further instruction. LCCU then attempted to take the payment and it was again returned. LCCU applied another fee to Mr M's account.

Mr M spoke with LCCU in early September and completed a further instruction for a lower amount. This was attempted and returned shortly afterwards, with a further fee being added to Mr M's account.

Mr M made direct payments to the loan in October and November and in November completed another direct debit instruction. It appears that a direct debit payment was returned in November, but payments were thereafter made to the account in January and February 2018.

Mr M complained to LCCU and to us about difficulties he had experienced in making contact with the business. He said that he could never get through to make repayments and his calls and emails to the business were not answered. He was concerned that he had paid additional interest on his account because of his difficulties he had found in speaking to the business.

Mr M then settled the balance of the account in February 2018.

One of our adjudicators has looked into this matter and set out her view to the parties. This was that there was evidence that Mr M had made efforts to contact LCCU to make additional payments and had not been able to speak with an agent or to make payment. There was also evidence that LCCU had tried to contact Mr M to take payment, but had been unable to do so.

The adjudicator's view was that the communication issues had caused Mr M to incur additional interest and that the loan interest should be shared between the parties. She also felt that the direct debit fees were not referred to in the loan agreement so these should not be charged to Mr M.

Mr M accepted her view but the business disagreed. The complaint was therefore passed for an ombudsman decision.

### **my findings**

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

In rejecting the adjudicator's view, the business provided a copy of its telephone script which referred to charges for unpaid direct debits, and said that this would have been read to Mr M when he set up his direct debits. The business did not produce any evidence of these calls. Over the duration of the account, £40 of charges for unpaid direct debits was applied to Mr M's account.

On reviewing the account, I can see that interest was calculated and added to Mr M's account at irregular intervals, and that the calculations did not relate to 2% of the balance on those dates when it was added. A total of £420.08 was added to the account between June 2017 and February 2018, when the account was ultimately settled.

I asked the business to provide an explanation of how that interest had been calculated, why the interest was not calculated monthly and why the calculations did not relate to 2% of the balance at those dates.

The business has taken a very long time to respond and has not explained why interest was calculated and debited at irregular intervals. The business referred to the APR, but did not explain how the calculations related to the balance.

The agreement states that "interest is repayable on the loan at the rate of 2.00% per month fixed". There is no other explanation of interest calculations given in the agreement which was then signed by the customer. By that description of interest, alongside a repayment schedule showing interest as being calculated on the same date each month, I think a customer would reasonably understand that interest would be calculated monthly as 2% of the outstanding balance.

By my estimation, if calculated this way and on the 5th of each month, the interest on this account should not have exceeded £379.97 (rather than £420.08). I therefore think that the total interest should be capped at this level, and then split between the parties, as suggested by the adjudicator. This is because I agree with the adjudicator's conclusion that there is

evidence of fault on both sides in terms of communication, and this has had an impact upon payments being made and consequently the interest charged.

In relation to the unpaid direct debit fees that were charged, whilst I appreciate that customers should ensure that a direct debit will be honoured by their bank, there is no clear evidence that Mr M was made aware of the fees for a direct debit failing in this case. In light of the difficulty Mr M faced in contacting LCCU, and in the confusing information which surrounded Mr M's account, I do not think it fair that Mr M bear these fees.

I think that the business should refund to Mr M half of the adjusted interest and the unpaid direct debit fees. That would result in a net repayment to the customer of interest and charges totalling £229.99.

I have set out my view to the business and I invited the business's comments. The business has not accepted my view.

I also think that the business's handling of Mr M's communication and complaint has been unhelpful and slow, which has delayed Mr M's complaint being resolved.

I therefore think that the business should pay £50 compensation to Mr M to represent his distress and inconvenience.

### **my final decision**

For the reasons set out above, I uphold Mr M's complaint and direct London Community Credit Union Limited to:

- refund to Mr M £229.99; and
- pay Mr M £50 compensation in recognition of his distress and inconvenience.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 1 December 2018.

Laura Garvin-Smith  
**ombudsman**