

complaint

Miss W and Mr T complain that:

- Pentagon (UK) Limited (trading as EuroDebt Financial Services) failed to tell them that their lender was unlikely to agree to freeze interest if they entered into a debt management plan, and when it did in fact refuse to do so; and
- the debt management plan EuroDebt advised them to enter into was therefore unsuitable.

background

In November 2008, Miss W and Mr T owed two debts to their lender which they were having difficulty repaying. One was secured on their home, and the other was unsecured. Together they totalled some £43,400. They approached EuroDebt for advice and help.

EuroDebt advised them to enter into its debt management plan, and negotiated a reduced monthly payment to their lender, which was less than the interest accruing on their debt. EuroDebt said it would ask the lender to freeze interest on their debt, although this could not be guaranteed.

However, it did not warn them that this lender was unlikely to agree to such a request, and did not tell them when the request was indeed refused. Their debt is now greater than when they entered the debt management plan. They consider that EuroDebt should refund the interest which has been added to their account since they entered the debt management plan.

Our adjudicator recommended that this complaint should be upheld in part. First of all, she said that the lender had continued to send correspondence and statements to Miss W and Mr T. They said they had forwarded these to EuroDebt without reading them, as instructed by EuroDebt. The adjudicator considered that it was unreasonable of them not to read the letters before forwarding them. So they should have been aware that interest was not being frozen.

However, this did not absolve EuroDebt from its duty to have warned Miss W and Mr T that their lender was unlikely to freeze interest, or to tell them when this turned out to be the case.

In addition, the Office of Fair Trading's Debt Management Guidance issued in 2008, and updated in 2012, said that clients should be told where a lender had refused to freeze interest, and should not be advised to make payments at a rate lower than interest and charges were accruing unless this was demonstrably in their best interests.

She did not consider that Miss W and Mr T had gained any benefit from entering into the debt management plan, at least until the lender changed its policy and did freeze interest from 2011 onwards. That said, she did not recommend that EuroDebt should be required to refund all the interest they had been charged since 2008, because she did not consider that the outcome would have been any different if they had not entered into the plan. Miss W and Mr T were not in a position to clear their debt, and interest would still have been added to their account.

The debt management plan contained a guarantee that the initial instruction fees that Miss W and Mr T had paid would be refunded if a reduction in their debt of at least £595 was

not agreed within the first twelve months. As no reduction was agreed, she considered these fees should be refunded.

In addition, some payments Miss W and Mr T made to EuroDebt in 2012 were not forwarded by it to the lender, apparently because of a change in the lender's bank account details. This had resulted in interest being charged once more by the lender until it received the missing payments. The adjudicator considered that EuroDebt had not done enough to prevent the payments being missed, and so should refund any extra interest Miss W and Mr T had to pay the lender.

To reflect the poor advice to enter into the debt management plan, not advising of the lender's refusal to freeze interest, and poor handling of the missing payments, the adjudicator recommended that EuroDebt refund 75% of the management fees it had charged from 2008 to date, and in addition pay Miss W and Mr T jointly compensation of £250 for the distress and inconvenience it had caused them.

EuroDebt accepted the adjudicator's recommendation. However, Miss W and Mr T responded to say, in summary, that:

- EuroDebt should refund all the management fees, and all the interest charged by the lender since they entered into the debt management plan;
- the compensation suggested by the adjudicator was inadequate for the stress and strain they had suffered; and
- if they had not entered into the debt management plan, they would have entered an individual voluntary arrangement (IVA), after which no interest would have been charged. However, EuroDebt advised them that a debt management plan was a better option.

The adjudicator said that because of the costs involved in setting up an IVA, she could not say that Miss W and Mr T would have been able to do this, and so stood by her previous recommendation. Miss W and Mr T asked for their complaint to be reviewed.

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 find that I have come to the same conclusions as the adjudicator, and for broadly the same reasons.

First of all, Miss W and Mr T are unhappy about the way the lender dealt with their account and their credit file. This is the subject of a separate complaint to this service, so I will say no more about these matters.

For the reasons the adjudicator has explained, I consider that EuroDebt failed to deal adequately with the issues of freezing of interest and missing payments. So Miss W and Mr T received no real benefit from the debt management plan until the lender changed its policy and began to freeze interest in 2011. After that, EuroDebt has helped them to manage their debt and make reduced payments to the lender.

I agree that EuroDebt should refund the initial fees it charged, and 75% of the remaining fees charged from when the plan began in 2008 to date. It should also refund the interest charged by the lender when payments were not made to the account between November 2011 and February 2012.

I do not agree that EuroDebt should be required to refund all the interest charged by the lender since 2008. Miss W and Mr T continued to receive correspondence and statements from their lender after the plan began. They forwarded these to EuroDebt for it to deal with, as it told them. However, I do not consider it was reasonable for them not to look, in particular, at the statements, from which it would have been apparent that interest was still being charged.

In addition, I am not persuaded that entering into an IVA would have been an option for Miss W and Mr T, because of the costs involved. So it is not clear that they would have been in any better position if they had not entered into the debt management plan.

Finally, I agree that EuroDebt should compensate Miss W and Mr T for the stress it caused them. The compensation amounts this service awards for this are generally modest. They are not intended to fine or punish a business. I consider that £250 is the appropriate figure for compensation in this case.

my final decision

For the reasons I have set out above, my decision is that I uphold this complaint in part. I order Pentagon (UK) Limited (trading as EuroDebt Financial Services) to:

1. refund the initial fees it charged Miss W and Mr T when they entered into the debt management plan in 2008, and 75% of the remaining fees charged from 2008 until settlement;
2. refund the interest charged by the lender when payments were not made to Miss W and Mr T's account with the lender between November 2011 and February 2012; and
3. pay Miss W and Mr T compensation of £250.

Lennox Towers
ombudsman