

complaint

Mrs M has complained about the debt reduction plan she entered into with Sterling Financial Security Ltd, as her debt has not significantly reduced. She also believes that Sterling has made late payments to her creditors and has applied unjustified charges against her account. She would like all of the money she has paid to be disbursed amongst her creditors.

background

Mrs M entered into a debt reduction plan with Sterling. Between November 2009 and July 2014, she paid it over £6,000, but her debts only reduced by around £1,500. She believes the difference should be paid to her creditors. Sterling has said that it charges up to 90% of payments in fees at the start of the plan to cover 'claims management' costs (e.g. challenging fees and negotiating with creditors), which explains why Mrs M's debt has not reduced as much as she would have expected. After these fees have been paid, the remaining debts are dealt with under a standard debt management plan and no further fees will be due, although fees can be payable for a considerable amount of time. Mrs M says it was never explained to her that most of her payments for the first five years would be kept by Sterling. She says that if she had been told this, she would never have entered into the plan.

Mrs M has also said that Sterling failed to make some payments to her creditors and has made charges against her account which are unfair.

Following this service's involvement, Sterling offered Mrs M what it described as 'a full refund', with 8% simple interest per annum, plus £150 compensation for the service she had received. However, it has not explained what it means by 'full refund', despite the adjudicator's attempts to clarify this.

Accordingly, the adjudicator issued his opinion, recommending that the complaint should be upheld. He said Sterling should pay Mrs M:

- a) a full refund, meaning every payment she has made to date, less any payments made to her creditors, adding 8% interest from the date of each payment to the date of settlement; and
- b) £150 compensation.

Sterling did not respond to the adjudicator's opinion.

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 have seen no evidence that Sterling explained the fees arrangement to Mrs M before she entered into the arrangement. I am persuaded by her statement that she would not have entered into it had she known, given that her debt would be reduced by so little over the first five years. For this reason, I consider that Mrs K should be put back into the position she would have been in had she not entered into the agreement. This means her payments and any charges made should be refunded (adding interest). However, I do not think it fair for her to be refunded sums that have already been passed on to her creditors.

I am also satisfied that the situation has caused Mrs M a certain amount of distress and inconvenience (and indeed shock when she discovered how much debt was still outstanding). I am satisfied that £200 is appropriate to address this.

my final decision

For the reasons given above, my final decision is to uphold this complaint. I require Sterling Financial Security Ltd to give Mrs M:

- a) a full refund. This means every payment she has made to date (including any charges), LESS any payments made to her creditors;
- b) 8% interest should be added to the above, from the date of each payment made by Mrs M that was not passed on to her creditors (or the date each charge was made) to the date of settlement; and
- c) £200 compensation.

Elspeth Wood
ombudsman