Complaint

Mr M complains about the way Valour Finance Limited trading as Savvy.co.uk ('Savvy') dealt with him after he experienced financial difficulties.

Background

Mr M took out a loan for £1,250 in February 2018. Under the terms of the agreement it was due to be repaid in 15 monthly instalments of £166.66 between March 2018 and May 2019. The first three monthly instalments were paid on time.

In June 2018, Mr M contacted Savvy to explain he'd become the main earner in his household and therefore wasn't able to pay the contractual loan repayment. I understand he provided Savvy with details of his income and expenditure, setting out how his change in circumstances had affected his disposable income. As a result, Savvy offered a reduced monthly payment of £50.42 from 27 June 2018, which Mr M agreed to pay.

At this time, Mr M had explained that he expected to be able to increase payments to £200 from September 2018 because of an anticipated increase in his disposable income. Savvy acknowledged this and said that it would contact him before this time to discuss a new arrangement of £200 and whether this would be affordable.

Mr M also asked Savvy how the payment reduction (and possible subsequent increase to £200) would affect the interest applied to the loan. Savvy explained to Mr M that interest would continue to apply at a rate of 0.33% per day, which was what the credit agreement said and it made clear the overall amount of interest would be capped at £1,250.

In January 2019, Mr M realised that Savvy hadn't contacted him as it had agreed to discuss increasing payments from September 2018. He complained to Savvy about the lack of contact and the impact the reduced loan repayments on the loan's balance and his credit report.

Savvy didn't feel that it had acted unfairly. It said that it was Mr M's responsibility to contact it to increase his repayments when his circumstances had changed. It also felt that it had explained to Mr M how the reduced payment would affect his loan's interest and that, ultimately, his interest would be capped so he would pay no more then what was outlined in the loan agreement.

Our adjudicator thought that Savvy hadn't acted reasonably in response to Mr M's financial difficulties. She thought that Savvy should deduct any interest applied to his loan from 15 June 2018 from his outstanding balance. Savvy disagreed with the adjudicator.

Since Mr M referred his complaint to this Service, he continued to make payments of £50.42 until July 2019, before increasing the payment to £58 from August 2019. I understand in December 2019 Savvy passed the outstanding balance to a third party to collect.

The complaint has now been referred to me to consider.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint, taking into account all of the relevant rules, guidance and good industry practice.

Savvy needed to show forbearance towards Mr M's financial difficulties, but that doesn't mean that it would be unreasonable for it to seek repayment of the money that it had lent. The FCA's Consumer Credit Sourcebook ("CONC") states that:

'*Examples of treating a customer with forbearance would include the firm doing one or more of the following, as may be relevant in the circumstances:*

(1) considering suspending, reducing, waiving or cancelling any further interest or charges (for example, when a customer provides evidence of financial difficulties and is unable to meet repayments as they fall due or is only able to make token repayments, where in either case the level of debt would continue to rise if interest and charges continue to be applied);

[Note: paragraph 7.4 (box) of ILG]

(2) allowing deferment of payment of arrears:

where immediate payment of arrears may increase the customer's repayments to an unsustainable level; or

provided that doing so does not make the term for the repayments unreasonably excessive;

(3) accepting token payments for a reasonable period of time in order to allow a customer to recover from an unexpected income shock, from a customer who demonstrates that meeting the customer's existing debts would mean not being able to meet the customer's priority debts or other essential living expenses (such as in relation to a mortgage, rent, council tax, food bills and utility bills).'

I think that setting up a repayment plan, at a lower monthly amount than had previously been agreed, was a reasonable way forward based on what Mr M said he could afford to pay. I don't think though this went far enough in showing forbearance to Mr M.

The FCA's guidance asked Savvy to consider modifying in some way the interest rate applied to the loan because Mr M was only able to make token payments towards its repayment. And the statement of account provided by Savvy seems to indicate that as a result of *not* suspending or freezing the interest led to Mr M M's overall balance of the account increasing during a time – that Savvy was aware of Mr M's financial difficulties. For example, in August Mr M paid £50 but £96.32 of interest was added to his account balance. To me, allowing someone's balance to increase during the time Savvy knew Mr M was having difficulty is not treating him fairly or with forbearance.

I appreciate that Savvy didn't contact Mr M, as it agreed, in September 2018. But I'm also mindful of the fact that Mr M didn't make contact either. And, even if Savvy had called Mr M given what happened later on – that being Mr M wasn't in a position to significantly increase his repayments to a level even approaching that of the contractual amount - I don't think Mr M would've been in materially different situation. So there is no evidence to suggest he would have been able to increase his repayment amounts even if Savvy had proactively called him to ask about that, as he'd expected.

Considering these circumstances and taking on board the FCA's guidance, on balance, I think that Savvy failed to treat Mr M in a reasonable manner when he was finding it difficult to repay his loan.

Mr M emailed Savvy on 16 June 2018 about his difficulties. So, I think 27 June 2018, the date of his next contractual payment, would be a reasonable point for Savvy to have suspended the interest, giving Savvy a reasonable period to show forbearance towards Mr M's financial difficulties.

I appreciate Mr M is disappointed that his credit file has adverse information showing for this loan. But even if Savvy had suspended interest, his loan would still have been in arrears because he wasn't paying the loan agreements contractual. And from what I have seen, he has continued to make lower payments than the agreement and indeed some of these failed. So, I don't think, it was unreasonable for the arrears to have been reported or for Savvy to take the action that it did to pass the account to a third party in December 2019.

I think though that Mr M's credit report should reasonably reflect the loan's outstanding balance taking into account the removal of interest from 27 June 2018.

Putting things right

Savvy should have suspended interested on Mr M's loan when he alerted it to his financial difficulties. It's not right, therefore, that any current loan balance should include interest that was added after this time.

Savvy has also let us know that in December 2019 it past the account to a third-party collection agent.

So, to put things right Savvy should, try to buy back Mr M's loan and take the following steps. If Savvy is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below:

- Remove all interest from the loan's outstanding balance that was added from 27 June 2018.

- If after removing the interest Mr M has now paid enough to clear the outstanding balance then any overpayment paid by Mr M should be returned to him with 8%* simple interest per year from the date of the overpayment to the date of settlement.

- If after removing the interest an outstanding balance remains, then Mr M and Savvy should try and come to a mutually agreeable repayment plan in order to repay any outstanding balance. But I'd remind Savvy responsibility to treat Mr M fairly

- Update Mr M's credit report, to reflect the new outstanding balance following the removal of interest from 27 June 2018. If Mr M has repaid the outstanding balance then the credit file should be updated to reflect that the loan has been repaid from the date that loan would've closed had the interest been frozen from 27 June 2018.

*HM Revenue & Customs requires Savvy to deduct tax from this interest. It should give Mr M a certificate showing how much tax it has deducted, if he asks for one.

My final decision

For the reasons given above, I partly uphold Mr M's complaint.

Valour Finance Limited should put things right for Mr M as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 April 2020.

Robert Walker
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