

complaint

Mr K complains that NewDay Ltd hasn't calculated the contractual minimum payments on his credit card account correctly.

background

I sent my provisional decision to both parties on the 3 December 2019. A copy of this is attached below and forms part of this final decision. In it I set out the background to this complaint. And I explained why I didn't think it should be upheld. I said that I thought NewDay had calculated the contractual minimum payments on Mr K's account correctly. And that his balance had been increasing because he had been making a new purchase each month.

NewDay said that it agreed with my provisional decision. Mr K didn't, and responded with some detailed comments.

In summary he said I'd interpreted the FCA's guidance incorrectly, and that the 'charges' element referred to in CONC 6.5.7R included purchases for the purpose of account calculations in respect of the minimum payment.

He said he felt the minimum monthly payment should be set at a sufficient level to facilitate a gradual reducing account balance. And that it should be reasonable to rely on the statement *"Contractual minimum payments – if you only make the minimum payment each month – it will take you longer and cost you more to clear your balance"*.

He also maintains that NewDay's approach is contrary that taken by other credit card companies. And says that its stance contravenes FCA guidelines and rules governing perpetual debt. He is unhappy that NewDay hasn't got copies of letters it sent when it assumed ownership of his account. And said that when it did this it also assumed ownership of the applicable terms and conditions.

Mr K has also advised that his PPI premiums are not charged at 1.5% of his account balance as I stated in my provisional decision, but at 1.47%.

my findings

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

I know Mr K will be disappointed, but I've reached the same conclusions I did in my provisional decision. I'll explain why this is. But firstly I just wanted to clarify that whilst Mr K has asked me to comment on some specific points and answer a series of questions he's put forward, I haven't structured my findings in such a manner. I hope he won't take this as a discourtesy. But this wouldn't be in keeping with the informal nature of our service. My decision focuses on what I believe to be the main issues here. But I'd like to assure Mr K I have read and considered everything he's told us.

Mr K feels that I've interpreted CONC 6.5.7R incorrectly. As I set out in my provisional decision, this provides that *"A firm must set the minimum required repayment under a regulated credit agreement for a credit card or a store card at an amount equal to at least that amount which repays the interest, fees and charges that have been applied to the customer's account, plus one percentage of the amount outstanding"*.

The dispute here seems to come down to the way NewDay has treated Mr K's account cover (PPI) premiums when calculating the contractual minimum payments on his account. Mr K feels it should have factored this amount into the contractual minimum payment in full.

I explained in my provisional decision that I didn't consider this premium to be a 'charge'. Whilst the premiums are based on his credit card balance, I said it is still essentially a purchase he is choosing to make each month. And which he is paying for using his credit card. I'm still of this opinion. In my provisional decision I also noted NewDay isn't the provider of this insurance cover. To clarify, I would've reached the same decision here even if it was.

Mr K has suggested that purchases amount to charges. But I'm afraid I don't agree there is any expectation that the minimum payment will cover his monthly spending in full. This would effectively require credit card holders to clear the full balance on their account each month – which is akin to the way a chargecard operates. Credit cards generally allow holders to carry a balance, and to repay this over time.

I'm still satisfied NewDay calculated Mr K's contractual minimum payment correctly. This is calculated based on his account balance, i.e. level of borrowing, at the time statements are generated. I see the minimum payments were at a level that did initially reduce the outstanding balance on his account. But as Mr K then made a further purchase each month, his balance had increased again by the time the next statement was generated

I understand Mr K is frustrated NewDay hasn't been able to provide us with more documentation. But given the amount of time that has passed since it took over his account, I don't think this is necessarily unusual. And I'm satisfied I'm able to reach a fair and reasonable decision here.

Mr K has told us other credit card providers calculate contractual minimum payments differently. And it may be that this is the case. But my decision is only focused on the actions of NewDay. And I've explained why I don't think it's made a mistake or treated him unfairly.

I do think some of the letters NewDay sent Mr K in response to this complaint could have been worded differently to help him better understand how it calculates his contractual minimum payment. But I haven't found that it's made an error.

I note Mr K's comments about the amount of his PPI premiums. My provisional decision can be read with "1.47%" replacing "1.5%" if he considers that this was incorrect.

my final decision

I do not uphold this complaint for the reasons I've outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 7 February 2020

Jenette Lynch
ombudsman

copy of provisional decision

complaint

Mr K complains that NewDay Ltd hasn't calculated the contractual minimum payments on his credit card account correctly.

background

Mr K is unhappy that the outstanding balance on his credit card account has been increasing each month even though he's been making the contractual minimum payments NewDay has asked for.

He says the relevant regulations state that a minimum payment must be calculated in a way that results in a progressive decrease in the outstanding balance of the account each month. So he doesn't feel NewDay has acted fairly here.

He explained this to NewDay. And he asked it to put his account in the position it would have been in if the contractual minimum payments had been set at a level that did reduce the overall outstanding balance of the account. But NewDay said that the interest it had been applying to Mr K's account was valid. It explained that the account cover (payment protection insurance or 'PPI') he makes payments for each month is classed as a purchase. And that this purchase is correctly calculated within the minimum monthly installment it asks for at 1% of the outstanding balance.

Mr K wasn't satisfied with this response, so he referred his complaint to our service.

Our investigator recommended that this complaint should be upheld. They didn't think NewDay had sufficiently taken Mr K's account cover into consideration when calculating his minimum payments. And noted that his account balance had increased steadily since NewDay had taken it over. They asked NewDay to recalculate the contractual minimum payments that had been made to Mr K's account since August 2014. And to amend the account balance accordingly. They also asked it to pay Mr K £100 compensation.

Mr K accepted these recommendations, but NewDay didn't. It says it's correctly calculated Mr K's minimum payments in line with the relevant regulations and guidelines. So the case has been passed to me to review.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so I don't think NewDay has made an error here. I'll explain why.

The Financial Conduct Authority (FCA) has set out how the contractual minimum payment for a credit card should be calculated. Details of this can be found in the Consumer Credit Sourcebook. CONC 6.7.5R provides that;

"A firm must set the minimum required repayment under a regulated credit agreement for a credit card or a store card at an amount equal to at least that amount which repays the interest, fees and charges that have been applied to the customer's account, plus one percentage of the amount outstanding".

I've looked carefully at the terms and conditions of Mr K's account. These state that;

"Your contractual minimum payment will be the higher of: A. £5 – or if you owe less than £5, the full amount you owe (e.g. if you owe £2 that will be the contractual minimum payment); or B. the sum of (i) interest, (ii) default fees and (iii) 1% of the full amount you owe, (including the interest and default fees) as shown on your monthly statement".

This is in line with the guidelines I've set out above. So I'm satisfied that the calculation NewDay says it uses to work out the contractual minimum payment for Mr K's account is fair. And having looked carefully at his credit card statements I also think it's calculated this correctly in practice here.

I can see that Mr K pays for insurance cover (PPI) which is debited from his account each month. His statements indicate this is charged at 1.5% of his account balance.

NewDay has provided us with a copy of the original credit agreement Mr K completed when he took out the account. I can see he opted for '*Payment and Purchase Protection*' and agreed to his account being debited with the relevant premium until further notice. NewDay has also clarified that it's not the provider of this insurance cover, and that this cover was purchased prior to the account being passed to NewDay in 2014.

I can see Mr K feels these premiums should be treated as a fee or charge. But I'm afraid I don't agree. These premiums aren't interest or fees, they're a recurring purchase. So each month Mr K has been making a purchase which is added to the outstanding balance of his account.

When the contractual minimum payment is calculated only 1% of the outstanding balance (which includes purchases) is included. However Mr K's PPI premiums are calculated at 1.5% of his outstanding balance. So, as he's only been making the contractual minimum payment and no further contributions, Mr K's overall account balance has continued to increase because he's spending more on purchases than he's paying off each month.

There's no expectation that the contractual minimum payment should cover Mr K's monthly spending. That's not how a credit card operates. If Mr K continues to make purchases with his credit card, the balance of his account is going to increase if he only makes the contractual minimum payment each month. And this would be the case irrespective of what he spends that money on, whether that be PPI or other purchases.

If Mr K continues to purchase the PPI but wants his credit card account balance to start decreasing, he needs to repay more than the contractual minimum payment each month. Based on his current usage he'd need to repay enough to cover interest, fees and more than 1.5% of the outstanding balance on his account, as this is the amount being added to the balance each month.

I feel I should clarify here that I can't be certain whether Mr K's previous credit card provider took the same approach to this charge as NewDay has. And given the amount of time that has passed NewDay doesn't have copies of any relevant letters it may have sent to Mr K when it took over his account. But I'm satisfied that, for the reasons I've outlined above, NewDay has treated Mr K fairly and reasonably here. I haven't seen anything that makes me think it's made mistakes when calculating the contractual minimum payments due on his account.

NewDay has also shown us that it's identified that Mr K's account is in 'persistent debt', (i.e. that his account balance has been continuously increasing), and sent him in a letter in July 2019 advising; *"We've noticed that over the last 18 months you've paid more in interest, fees and charges than you've repaid towards the amount you borrowed. This usually happens when you pay only the contractual minimum payment, or an amount close to it, each month."* Having read the full contents of this letter I'm satisfied that NewDay has met its obligations to highlight this to Mr K and let him know how he could reduce the overall cost of his borrowing and pay his balance sooner.

my provisional decision

My provisional decision is that I don't intend to uphold this complaint for the reasons I've outlined above.

Jenette Lynch
ombudsman

