



Case study: Non-Bank Money Services and Credit

CUSTOMER DEFAULTS ON LOAN AS NO CLEAR LOAN CHARGES ADVISED

Themes: Mis-selling; legal costs; early loan repayment charges.

This complaint related to a lender's action to collect on a loan following the failure by the complainant to continue repaying the loan that she believed had been mis-sold to her.

In May 2019 Ms Z applied to a finance company (FC) for a loan valued at £45,000 to renovate a property. Ms Z requested FC to provide confirmation that there were no early repayment charges applicable and says this was confirmed through telephone calls that may or may not have involved her loan broker.

In January 2020 Ms Z attempted to make a lump sum early repayment to FC and was advised that the entire loan interest of £15,000 that would have been payable over the five-year loan term would be added to the remaining loan value to compensate FC for the early repayment. Ms Z believed that the loan had been mis-sold as she had requested a loan that could be partially paid off early with no charges. Ms Z complained to FC and breached the loan agreement by making no further loan repayments.

In February 2020, FC offered Ms Z the option to repay the outstanding loan value of £41,453 only, without accelerated interest to the end of the loan term. Ms Z declined this offer as she did not have sufficient funds to repay the entire lump sum and could only afford to repay £20,000 at that time. FC did not accept partial payment and repeatedly contacted Ms Z to encourage her to continue to make the required loan repayments. Ms Z did not respond and FC had no option but to initiate legal action to recover the funds, incurring £9,219 in legal fees which, if FC's case were successful, would be payable by Ms Z.

By June 2020 Ms Z had raised enough funds to pay the outstanding value of the loan that had previously been offered, but as FC had now incurred legal costs her offer to repay the previously indicated settlement amount was declined. Ms Z brought her complaint to CIFO emphasising that the loan was mis-sold and that in other jurisdictions they would have provided details of the loan structure.

CIFO investigated and noted Ms Z's concerns that there was no regulation of market conduct by loan providers to provide clear guidance on the issues arising from the complaint. CIFO's decision was therefore based principally on what would be fair and reasonable in the circumstances. As the alleged telephone calls were not recorded, there was no evidence to confirm that FC had confirmed to Ms Z, either directly or through her loan broker, her ability to make early loan repayments without a charge. The loan agreement itself was silent on that issue.

CIFO believed that Ms Z should pay the outstanding loan value of £41,453 as previously offered by FC, plus the £2,349 in interest accumulated on that amount since that offer was made, along with a three-month interest penalty of £1,153 for early repayment in line with general industry practice. CIFO also felt that Ms Z should pay the legal costs incurred by the loan company as these were in accordance with usual practice and were incurred as a direct result of Ms Z's failure to continue making the required loan repayments. Ms Z rejected CIFO's proposed settlement in favour of an Ombudsman determination of the complaint. CIFO did not uphold the complaint, leaving the parties to resume the process to resolve the matter through the courts. It was also suggested to Ms Z that she consider raising her concerns with her loan broker about its possible role in the alleged misunderstanding regarding her loan with FC.