

The complaint

Mr K (through a representative) complains Provident Personal Credit Limited (“Provident”) didn’t provide an early settlement rebate even though he repaid his loans early.

Following a complaint, Provident accepted that something went wrong and it credited Mr K’s outstanding loan balance with £50 compensation rather than paying it directly to him.

What happened

Our adjudicator did not uphold Mr K’s complaint. Mr K did not agree with the adjudicator’s opinion. The complaint was then passed to me.

I issued my provisional decision explaining the reasons why I was not intending to uphold Mr K’s complaint. A copy of the background to the complaint and my provisional findings follow this in italics and in a smaller font and forms part of this final decision.

What I said in my provisional decision:

Mr K has had three loans in total, but this complaint only concerns what happened with repaying the final two loans. A brief overview of the final two loans is included below.

loan number	loan amount	agreement date	repayment date	term (weeks)	weekly rate
2	£1,000.00	03/06/2019	10/08/2020	78	£27.00
3	£1,730.00	21/01/2020	22/02/2021	104	£39.79

Mr K provided this service with copies of his paying books for each of the above loans.

For loan 2, Mr K was paying £30 per week until 13 July 2020. At which point his payments increased to £47 per week, until 10 August 2020, when the paying book (provided by Mr K) showed an outstanding balance of £277, and then this amount was paid in order to close the account. So according to the paying in book, the loan was repaid 16 weeks early, without an obvious early settlement rebate.

For loan 3, Mr K repaid this loan early, and received an early settlement figure, meaning he paid less than the outstanding balance at the time.

Mr K’s representative was unhappy, with the fact that there appeared to be no early settlement rebate for loan 2, given that the paying in book showed the full balance was paid and despite repaying the loan around 16 weeks early. There also appeared to be an issue of how Mr K’s payments were allocated to his loan accounts. A complaint was then made with Provident.

Provident investigated the complaint and issued its final response letter (FRL) on 2 October 2020. Provident explained, that after seeing the paying in book, it had made several adjustments to Mr K’s outstanding loan balance. It made the following points;

- Loan 2 was closed, on 10 August 2020 but Provident wasn't able to change the closure date on its system from 19 August 2020.
- Adjustments had been made to loan 3 which total £173.72 which included an early settlement figure of £36.37. Provident says "this amount is the difference in the Early Settlement Rebate had the payment been applied correctly, on the correct date in reference to agreement [loan 2]." Provident applied the £173.72 due towards the outstanding balance on loan 3.

Provident also made a compensation payment of £50 in recognition of the distress and inconvenience cause. The £50 was also used to reduce the balance on loan 3. Mr K's representative said the early settlement calculation for loan 2 wasn't correct, the refund should've been £226 and Provident shouldn't have used the £50 compensation to lower his balance on loan 3 – it ought to have been paid directly to him.

Mr K's representative also says, that Provident was benefiting from the extra interest it had collected. Unhappy with the response, the complaint was referred to this Service. After it was referred to this Service, we were told that loan 3 had been settled early (around 47 weeks early) and again, Mr K's representative said the early settlement figure calculated for this his loan was incorrect.

Our adjudicator considered the complaint and didn't think it ought to have been upheld. She concluded;

- Mr K only had two loans. Loan 1 was cancelled, but it was included in the adjudicator's loan table.
- The early settlement figure due for loan 2, wasn't refunded directly to Mr K, instead it was used to reduce the balance on loan 3.

Provident appear to have accepted this Service's findings.

Before the complaint was passed for a final decision, Mr K's representative made the following comments;

- Mr K had always made regular repayments towards his loans.
- Provident had to make adjustments which were that because of the COVID-19 pandemic Mr K needed to make payments online rather than having the agent come to collect the payments in person.
- Mr K and the agent agreed how the payments amounts would be split, but this didn't happen and Provident split the payments differently.
- Mr K repaid loan two 16 weeks early and hasn't received an early settlement rebate
- Mr K accepts that he received an early settlement figure for loan 3 (and this was paid).

As no agreement has been reached, the case has been passed to me for a decision.

What I've provisionally decided – and why

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

Looking at the most recent comments, Mr K's representative accepts that an early settlement figure was provided and then Mr K paid this amount in order to close loan 3. So, I no longer think there is an issue with that loan.

Instead this decision will focus on what happened when loan 2 was repaid, and the compensation that Provident paid. So, both the account adjustments as well as the £50 payment.

Loan 2

The first thing I've considered are Mr K's repayments. Both the paying-in book provided by Mr K's representative show at the start regular payments were made. Indeed, although there is a slight discrepancy. As of 6 July 2020, Mr K's paying-in book showed he owed £465 whereas the statement of account says he owed £495. The difference looks to be due to the fact that Mr K had been paying £30 a week whereas, from March 2020 when Mr K switched to paying online Provident was only crediting £28.29 to the account.

From the 13 July 2020 Mr K increased his repayments to £47 per week as can be seen from the repayment book. However, Provident only increased Mr K's payments to loan 2 to £35.16. So, a difference in repayments of £11.84 per week.

This is important because, when the loan was fully repaid on 10 August 2020 Mr K's paying in book said he owed £277 – which is the amount he paid. Although due to the way the payments had been apportioned only £128.21 of the £227 was initially credited to loan 2 (according to Provident's statement of account).

And because of the way that Provident was splitting the repayments the balance, according to the statement of account, was £350.01. So, Mr K, according to Provident actually owed more than he realised. But, Mr K had paid in line with the balance on his paying-in book.

So, I can quite understand why Mr K doesn't feel he has received any early settlement rebate because according to the paying-in book he had paid all of the capital he borrowed as well as all of the contractual interest that was due. So, it would seem to him that he didn't benefit at all from repaying the loan 16 weeks early.

Provident has provided this Service, with evidence to show that it calculated the early settlement figure using the calculation that is outlined and detailed in the Consumer Credit Act 2004. This calculation is the one that should be used, and therefore I'm satisfied that the correct process has been followed when working out the rebate.

And I don't think that Provident has helped themselves in this case either. In the FRL, Provident didn't explain what the early settlement figure was. It said it made some account adjustments and of the adjusted amount, £36.37 of it was the difference in the early settlement rebate between what was due and what ought to have been paid had the payments been correctly proportioned in line with what Mr K was expecting.

Provident has told us the early settlement was £49.79 which was credited to the loan 2 balance when it did the re-calculations. So, it does seem, based on the calculations that an early settlement rebate was worked out and credited to this loan.

The credit agreement says the following about early settlements figures;

"...will give you a settlement quote the following week so you know how much you need to pay in total. The amount you need to settle your account will assume payments will be made within 28 day after the date of the settlement quote and will include 13 days interest. This amount payable even when you settle the loan before the end of the 28 days. This is in accordance with the provisions of the Consumer Credit (Early Settlement) Regulations 2004."

So even though the a payment was made on 10 August 2020 to settle the account, Provident was entitled to add an additional 13 days interest. And what is important to note, is that Provident's initial calculation shows that Mr K's payments were set at the same amount each week - £27 -and this went towards the balance. The way Provident calculates the early settlement payment is similar to a mortgage. So while the weekly amount it initially used may not have been correct, it does demonstrate an important principle.

In the early part of the lending relationship, more of the payments Mr K was making went towards repaying the interest, and it isn't until towards the end of the loan agreement that the capital borrowed starts being repaid at a more rapid rate.

So while, the loan was settled early, it was only 16 weeks early, and at which point, Mr K had already repaid the majority of the interest, and therefore he still had capital left to pay. Which is why, I don't believe the amount of money Mr K's representative believes is due to him is correct, given how late in the term of the loan Mr K was settling the balance.

The other issue here, as I've mentioned above, is Mr K's balances didn't match between the statement of account that Provident had for Mr K. This is likely as a result of any agreement being made between him and the agent not being communicated to central office.

So when Mr K paid the early settlement figure, the amount he thought he owed Provident and the amount Provident said he owed was different – by around £83. So, while Provident has reattributed the payments from the third loan account, it look like most of the conclusion and unhappiness in this case is because this hasn't been clearly explained.

I know Mr K says he didn't receive the early settlement figure. And I agree that he didn't receive any money directly from Provident. But that is because, the problem was caused, due to the way payments were being credited (as explained). But looking at the statement of account, it does seem that Provident did apply an early settlement repayment based on the correct account balance.

So, while there has been some misunderstanding as to what has happened, in relation to the early settlement figure, I don't think Provident has made a mistake in the way it has been calculated or the way it has been applied.

Compensation

Provident accepted it had caused distress and inconvenience, and ordinarily because of the reason why such a payment is made, it is normal for this to be paid directly to the consumer. Although, that may not be appropriate in all circumstances.

And it is clear, that Mr K's representative isn't happy with this, and she is quite right to point out that he wanted the money paid to Mr K, and given our approach to payments of distress and inconvenience there was a reasonable expectation that the funds would be paid directly to him.

Whereas, what Provident had done was pay the £50 towards loan 3, this was done on 5 October 2020. This had the effect of reducing Mr K's balance on this loan, and therefore meant when he settled the loan early, it took into account this extra payment. This means, it is no longer possible, to simply ask Provident to pay Mr K this money as it could have the effect of reopening the third loan and leaving a balance to be paid. I don't think this would be fair or the right thing to do in this case.

It is also clear, in my view, that there has been some confusion between Mr K and Provident as how it allocated payments. While the FRL does answer the complaint, there is clearly been some miscommunication about exactly what the early settlement rebate was, and how Provident was taking steps to put things right.

This has clearly caused a great deal of confusion, and while I think the early settlement figure for loan two has now been calculated correctly, Provident didn't explain this to Mr K, and it's clear the payment of £50 was due to go to Mr K directly. I'm satisfied, given the time that has passed, and what Mr K's representatives has said is that a degree of distress and inconvenience has been caused. As a result, I'm minded to award a modest sum for this.

Therefore, in order to resolve this complaint, I think Provident should pay Mr K (directly) an additional compensation payment of £100.

Response to the provisional decision

In response to the provisional decision, Mr K provided copies of text messages between himself and his Provident agent. He also called into the Financial Ombudsman and I can see the adjudicator has made the following points in her call note;

- He said the main issue is that the £173.72 which was applied to loan three never materialised, only the £50 compensation.
- Mr K says the loan agreements doesn't state interest is paid off first and then the capital balance.
- Mr K said he paid the whole amount for loan two and accepted the early settlement rebate for loan three.
- Mr K says that when he sent a text message to his agent about the refund of £173.72. The agent didn't answer the questions which Mr K says shows that Provident didn't do what it said it would.

Provident responded and let us know it had received the provisional decision and had already sent the compensation cheque to Mr K for £100, which was the proposed outcome in the provisional decision.

What I've decided – and why

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

In response to Mr K's comments the Financial Ombudsman approached Provident to ask it for some further comments especially around what the paying in book shows.

Provident responded to the information request and I've summarised what it told us below;

- The paying books are Mr K's records of the payment but following the pandemic payments were made online and "*split accordingly*"
- The early settlement rebate has been calculated based on the online repayment history as this is the record that Provident has of the repayments.
- The payments online are automated, and it has a record of each one made by Mr K.

Provident also provided contact notes of calls between itself and Mr K following his payment to Provident on 10 August 2010.

These notes don't shed any new light on what happened here. Only I would say that Mr K was on top of what should've happened following his repayment because he was calling to find out why his second loan hadn't been closed following the repayment. He was doing this as, based on his repayment book, he had paid enough to repay the total amount borrowed as outlined in the credit agreement.

Provident at this point, also confirmed that it didn't have anything further about the complaint.

Mr K, in response to the provisional decision refers back to the adjustments of around £173, which Provident said would be made in the final response letter – the exact details can be found in the provisional decision.

However, Provident has said the details in the final response letter about the payment of £173 may not be entirely correct. Given what I can see in the account movements it looks like Provident may have muddled up the loan numbers, so £173 wasn't credited to balance of loan three, rather a similar sum was moved from loan three to the balance of loan two and this can be seen in the electronic account movements that Provident has provided.

In terms of the credit agreement, the agreement for loan two just says that Mr K has borrowed £1,000 and has to make 78 payments of £27 meaning he will repay a total of £2,106.

I've not seen anywhere in the credit agreement that it explains how those payments were to be split between capital and interest. It just says the repayments need to be made and if the payments are made, then the loan will be fully repaid. The agreement, also provides, and which is quoted in the provisional decision about how Provident will work out the early settlement figure, if one is asked for.

I would point out that the regulations that Provident has referred to in order to work out any early settlement rebate is the correct one. So, I think, given what I've seen that Provident has worked out the early settlement figure correctly.

I've considered the text messages which Mr K has sent the Financial Ombudsman between himself and the Provident agent. But these text messages only show Mr K asking for what has happened to the refund he says was due. The agent doesn't confirm whether this is correct, instead she is just asks about payments. I don't think these messages add anything further to what happened in August 2020.

And in my view, the agent not answering this question directly doesn't mean that this is an admission of guilt by Provident or evidence that something went wrong. After all, when she responded (and this is speculation) she may not have had all the evidence to hand which Provident has now provided the Financial Ombudsman.

So, I've not put any weight on the way that the agent responded to Mr K in the text messages when coming to the outcome of this complaint.

Ultimately, in this case what looks like to have happened, is that Mr K was making repayments and recording them as such in the paying in book he had. However, as the payments had to be made online following the pandemic, Provident's system didn't split the payment in line with how Mr K was recording these in his paying book.

This can be reflected by the paying in book showing on 3 August 2020 Mr K had a balance of £277 (which was the amount he recorded as paying on 10 August 2020) whereas the online payment record supplied by Provident shows the balance on 3 August 2020 as being £385. This difference in balance was caused by the way Provident was splitting his online repayment between the two active loan accounts. In effect, Mr K believed he owed Provident less than what its online system was showing.

So, although Mr K was making repayments his balance on loan two was larger than the amount he paid to Provident in August 2020, a further complicating factor is that of that payment he made, not all of it was applied to loan two, some of the £277 was allocated to loan three.

It is also clear that the payment Mr K made on 10 August 2020 wasn't split how he was expecting it to be split, which is why he followed up with the phone calls that I've seen the notes from. As he rightly believed he'd paid a sufficient amount to close the loan.

I've seen the account movements that following the call Mr K made on 11 August 2020 Provident made a number of account adjustments (and has provided the electronic adjustments) which included moving funds from loan three to loan two and then applying an early settlement rebate of £49.79 to the account balance of loan two. This is what I'd have expected to see. And for the reasons I've explained above the balance of the account was

slightly larger than Mr K was expecting at the time due to the way that Provident had been splitting his online payments.

I also don't consider it unreasonable for Provident to have used the online payment history when working out the early settlement rebate because this is the electronic record of the payments Mr K had made.

Provident has explained the process it undertakes when working out the settlement balance and has provided the Financial Ombudsman with the calculations. While we are not actuaries the process that Provident has gone through to work this out seems reasonable and correct in this case and is in line with what it said it would do in the credit agreement.

Overall, I've reached the same outcome as I did in the provisional decision. The early settlement rebate was applied to loan two, I accept that it isn't as much as Mr K was expecting but a rebate has been applied and Provident has shown this has been calculated in line with the credit agreement. This leads me to conclude Provident doesn't have to make any further adjustments to the loan two account.

But for the reasons in the provisional decision I did think Provident needed to pay Mr K further compensation due to what happened following the complaint and what it did with the £50 compensation that instead of paying it to Mr K it used it to reduce his loan balance. So I had recommended a further payment of £100 – which needs to be paid directly to Mr K and I've not been provided with any further information that makes me think I should depart from this finding.

It is my understanding Mr K may have already received this money but I've still outlined below what it needs to do in order to put things right in case Mr K hasn't yet had the compensation.

Putting things right

Provident should, pay Mr K directly an additional payment of £100 for the trouble and upset that has been caused due to the way that it managed Mr K's account.

If this payment has already been made than Mr K won't receive any further compensation.

My final decision

For the reasons I've explained above and in the provisional decision, I'm upholding Mr K's complaint in part.

Provident Personal Credit Limited should put things right as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 15 April 2022.

Robert Walker
Ombudsman