

The complaint

Mrs R complains about the interest charged to her account by MBNA Limited.

What happened

Mrs R entered a debt management plan in November 2020 via a third party (“GP”). The largest creditor in the debt management plan is MBNA.

Mrs R conducts a reconciliation every 6 months to make sure that the payments she’s made and the balances on her accounts match up. When she completed a reconciliation in May 2023, she noticed that her MBNA balance didn’t match up with the payments she’d made. She discovered that interest had been applied to the account. Mrs R was surprised to discover this, as both she and GP thought that interest on the account was frozen.

Mrs R says that GP raised this with MBNA who subsequently stopped adding interest. But after a few months they started adding it again. Mrs R says that GP raised this again and some interest was refunded. But MBNA is refusing to refund interest charged between October 2022 and May 2023. Mrs R says the interest charged comes to over £1600. She thinks all interest should have been frozen. Mrs R raised a complaint with MBNA.

MBNA didn’t uphold the complaint. In its final response dated 14 December 2023 it said that in June 2022 it had received Mrs R’s income and expenditure details from GP. It said it had been advised by GP that Mrs R was in long term financial difficulties and that based on this, it offered the option of “account closure”. MBNA said that because the payments Mrs R was making to them were more than the minimum payment due on the account, this was stopping the account closure and therefore interest was being added to the account. MBNA said it received Mrs R’s income and expenditure details from GP in June 2023 and again offered account closure based on Mrs R being in long term financial difficulties. MBNA said it had sent letters in July 2022 and August 2023 confirming that interest would return to normal at the contractual rate two months from the date of the letters. It said the interest had been correctly applied and wouldn’t be refunded.

Mrs R remained unhappy and brought her complaint to this service. She wants all the interest she’s been charged since November 2022 refunded.

Our investigator didn’t uphold the complaint. She said that because Mrs R was paying more than the minimum payment including interest, this was preventing the account closure and resulting in interest being charged. The investigator said that although Mrs R was in a debt management plan, she was able to afford the minimum monthly payments to the MBNA card including interest and she hadn’t seen any evidence to suggest that the interest had been incorrectly applied.

Mrs R didn’t agree. She said that MBNA were the biggest creditor in the debt management plan and her payment to MBNA had always been the highest across her 17 creditors. Mrs R questioned why MBNA sent agreement letters saying that interest would be frozen and then told GP something different. Mrs R said she’d received the letters from MBNA saying that interest would be charged and had forwarded them to GP to re-negotiate an interest freeze

based on long term financial difficulties. Mrs R said she'd always been in financial difficulties, and she didn't understand why MBNA had refunded some of the interest but not the rest of it.

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.

I've reviewed the acceptance of repayment letters which GP sent to Mrs R on various dates including 21 November 2020, 2 April 2021, 24 May 2022 and 29 June 2023. These letters state that whilst the arrangement is maintained, interest will be frozen.

I understand that Mrs R relied on these letters and thought that no interest would be charged on the account. But its important to note that the letters were sent to Mrs R by GP, not by MBNA.

What seems to have happened here – repeatedly – is that GP have (on Mrs R's behalf) advised MBNA that Mrs R is in long term financial difficulties and provided income and expenditure details in support. In response to that, MBNA has (correctly in my opinion) attempted to close the account. However, because Mrs R's payments (via the debt management plan) exceeded the minimum payment due on the account, this stopped the account closure going through as it appeared that Mrs R was able to afford the minimum payments on the account.

I can see that MBNA wrote to GP and Mrs R each time they closed the account. The letters state that MBNA didn't expect Mrs R to make any further repayments. The default notice enclosed with the letter states that "if anything changes, and you can repay the full missed amount by the date shown in the default notice, it will stop closing your account".

It isn't clear why, despite the advice given in the letters not to make any further repayments, that Mrs G (through GP) continued to make repayments above the minimum amount. The effect of those repayments was to stop the account closure process and result in interest being added to the account again.

I can see that each time the account closure was stopped, MBNA wrote to GP and Mrs R confirming that interest would return to normal i.e. it would be charged on the account.

I can also see that MBNA spoke to GP in October 2023 and December 2023 and explained that if payments continued to be made which kept the account up to date, the account would function as normal and would attract interest and charges. MBNA also explained that if Mrs R wanted the account closure to progress, she should be paying less than the monthly payment indicated on the statement. MBNA said that in this way the account would fall into arrears and would be referred to recoveries, where a payment offer could be resumed again. MBNA's notes record that GP were going to discuss this with Mrs R and see if she was happy with it. I can't tell from the information provided, whether GP had a discussion with Mrs R and, if so, what the outcome was.

Based on what I've seen, I'm not persuaded that MBNA has made an error by charging interest on the account. I think MBNA has acted fairly and reasonably by trying to close the account but because Mrs R continued to make payment of more than the minimum amount, it wasn't possible for MBNA to close the account and the account then reverted to "normal" status which meant that interest was charged.

Mrs R has queried why interest was refunded at times and not charged at other times. In

relation to the refund, I can see that MBNA refunded interest of £98.20 due to financial difficulty as a gesture of goodwill. I can also see that interest was suspended due to this complaint in October 2023. In relation to interest not being charged at other times, from what I can see, this has happened because each time GP asked for the debt management plan to be agreed by MBNA, interest was frozen, payments to the account were made which exceeded the monthly minimum, MBNA reviewed the account and begin to charge interest again, until GP told MBNA again that Mrs R is in financial difficulties and agreed a new plan. The real problem here is that the plan was more than the minimum amount so the account could never be closed.

For the reasons I've explained above, I'm not persuaded that MBNA has made an error by charging interest. I won't be asking it to do anything further.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 18 June 2024.

Emma Davy
Ombudsman