

The complaint

Mr H complains Royal Bank of Scotland Plc closed several accounts in his name and unfairly reported them as defaulted.

What happened

The background facts of this complaint were explained by the investigator who issued their view on Mr H's complaint. I find no need to repeat everything here, but in summary:

- RBS closed several personal accounts which Mr H held, including a current account with an overdraft and a personal loan.
- RBS reported the accounts as defaulted during early 2020 as Mr H hadn't paid the outstanding balances he owed as a result of the accounts closing.
- Mr H complains the defaults were unfair and went on to impact the type of mortgage he could obtain.
- RBS says it followed the correct process to record the defaults and close the accounts. Mr H has not yet agreed a repayment plan with its agent to collect the remaining debt.

An investigator at our service upheld Mr H's complaint. They found:

- The notice to close letter RBS provided was correctly addressed and there was nothing to indicate there were postal problems at the time. So, the letter was likely sent, meaning RBS complied with its terms and conditions to close the accounts. It's understandable that Mr H wanted to know why the accounts were closed, but RBS is under no obligation to disclose its reasons.
- Although the notice to close letter was sent, this didn't negate the fact RBS gave Mr H misleading information which indicated his personal account was open, and that direct debits would be paid.
- RBS failed to demonstrate it acted with forbearance and due consideration before deciding to report defaults on the accounts. There was a lack of documentation to show Mr H was properly informed his accounts were going to be recorded as defaulted after the limited repayment discussions he had with RBS or its agent.
- RBS failed to assess Mr H's full circumstances to see whether he could repay what he owed over a reasonable period. Had RBS done what it should have, Mr H may have been able to agree a suitable formal arrangement to pay which would have lessened the impact on his credit status.
- Mr H chances of obtaining a better mortgage deal may have been affected by the defaults. But there are many variables which can affect a lender's decision, and it wasn't possible to say with enough certainty that Mr H would have got the mortgage

he wanted if the defaults had not been recorded.

- RBS should pay Mr H £500 to make up for the stress the presence of the defaults had on him over what is a significant period. RBS should also remove the defaults from Mr H's credit file in relation to the personal accounts he held.

Mr H accepted the outcome the investigator reached, but RBS did not. It agreed to pay Mr H £500 as a gesture of goodwill. But it says it shouldn't remove the defaults. Mr H has yet to agree a repayment plan with the third-party agent it is using to pursue the remainder of what he owes.

As no resolution was reached informally, the complaint was passed to me as an ombudsman to decide. I must make clear that my final decision only concerns the personal accounts which RBS reported as in default, and not Mr H's business accounts.

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 have decided to uphold Mr H's complaint. These are my reasons:

- I'm not persuaded the letter informing Mr H that his personal accounts would close was sent. RBS employees across various departments could not see his personal accounts were marked as to close when speaking to him on several different occasions. Neither could they see a notice to close letter was issued or dispatched in October 2019 in relation to the accounts they were discussing. I've placed weight of the fact they were specifically looking through their systems to explain what had happened but could not see the letter. I find it's unlikely they would all miss a record of the letter being dispatched if one was present.

The fact a letter exists on file or may have been viewable by one of the persons Mr H spoke to, is not by itself evidence of dispatch. Administrative/system failures to send letters do occur from time to time and I think this is likely to have happened here.

- Even though I'm not persuaded correct notice to close was sent, I don't find the accounts should reopen. It was clear RBS wanted to end its relationship with Mr H and it is likely it could end its relationship with him under the respective terms and conditions of each account. RBS is entitled not to disclose its reasons, even though I understand this must be frustrating for Mr H.
- Ending a relationship with a customer and recalling debt early is generally not enough of a reason by itself to record a default against an account. RBS needed to act with forbearance and due consideration about the debts Mr H owed. And what counts as forbearance and due consideration depends on the individual circumstances of a customer, as well as the amount of debt owed and what a reasonable length of time to repay that debt would be.
- Mr H had some form of discussion with RBS about repayment. And it's clear he couldn't repay everything straight away, which is unsurprising given the total balance he owed across various products. But this shouldn't by itself mean his accounts had

to be recorded as in default. After all, he doesn't appear to have missed repayments or persistently breached his repayment obligations when his accounts were open.

- RBS' debt manager notes lack specificity on what was discussed with Mr H about each of his personal debts. There is no income and expenditure assessment or evidence to show what alternatives were discussed or what was possible. So, I'm satisfied RBS hasn't evidenced each default was based on a proper assessment of Mr H circumstances and what he could pay to prevent the defaults.
- Personal debt remains which RBS own, and Mr H owes. And RBS says Mr H has yet to agree a repayment plan with the third-party agent it is using to collect the remaining debt. But I don't find this is enough to conclude the decision to default Mr H accounts was reasonable. The prospect of agreeing a way forward to repay already defaulted accounts is somewhat different to agreeing a formal arrangement to pay to avoid defaults. So, I don't find what is happening now is a reliable indication of what could have been agreed had a proper assessment of Mr H's circumstances happened in early 2020.

So, on balance, I don't find RBS acted fairly by reporting Mr H's accounts as defaulted.

- I agree that several defaults would likely negatively impact the choice of mortgage products available to Mr H. But I also find there are many variables which may impact lenders' decisions, and it's not certain Mr H would have got the mortgage product he wanted had the defaults not occurred.
- Mr H was unlikely to have been able to repay RBS the full amount he owed within a short period of time had proper discussions taken place about his circumstances and what was possible. I say this because if he had been able to repay what he owed quickly, I think he would have done so.

So, even if RBS assessed Mr H's circumstances fully in early 2020, I find either a formal arrangement to pay would have been agreed or a default may still have been recorded (but this time based on an informed assessment that there was no reasonable prospect of Mr H repaying what he owed over a reasonable period). So, whatever would have happened, Mr H's credit profile would have likely been negatively affected.

- RBS agreed to pay Mr H £500 as a gesture of goodwill. I find this is a fair and reasonable sum to compensate Mr H for the length of time defaults have been reported. Mr H was likely very concerned about the impact the defaults would have on him and his future. I also find the sum fairly compensates him for the clear and repeated miscommunication and errors which occurred when he rang RBS to discuss his personal current account in late 2020.

Putting things right

I direct RBS to remove the defaults it recorded against Mr H's personal accounts and pay him £500 in compensation.

Mr H does, however, need to be aware that my direction does not prevent RBS from potentially recording defaults in relation to the debt he owes in the future. It's fair for RBS and its agents to expect him to engage on agreeing a repayment plan. And, if a proper

assessment of Mr H's circumstances shows he cannot make more than token payments towards his debt, meaning the debt would not be repaid within a reasonable period of time, it might be fair for RBS and/or its agent to record those accounts as defaulted.

My final decision

I have decided to uphold Mr H's complaint. I direct Royal Bank of Scotland Plc to pay Mr H redress and remove the defaults it recorded against his closed personal accounts in line with my directions above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 30 November 2021.

Liam King
Ombudsman