

The complaint

Miss G complains that Nationwide Building Society placed a default marker on her credit file in May 2021 in relation to her unsecured personal loan account. Miss G says this was unfair because Nationwide had already accepted, in April 2021, that they'd defaulted her account incorrectly.

Miss G also complains that Nationwide sent her a notice of sums in arrears in August 2021, three months after she'd settled the account.

What happened

In October 2016 Miss G took out a fixed sum loan with Nationwide for £12,000. The term of the loan was 60 months and the monthly payments around £217.

In March 2020 Miss G requested some help as her income was disrupted by the Covid-19 pandemic. A nil-payment plan was agreed initially, but when Nationwide started offering Covid-19 payment holidays Miss G's plan was converted to a three-month payment holiday – this would prevent negative information being reported to her credit file.

In August 2020 Miss G asked for an extension to the payment holiday. Nationwide agreed a three-month nil-payment plan for September 2020 to November 2020 but later (in May 2021) recognised that this should have been a Covid-19 payment holiday extension.

In November 2020 Nationwide contacted Miss G to discuss her situation. Nationwide offered her a nil-payment plan covering December 2020, January and February 2021. They also explained that this would show on her credit file. Miss G agreed.

On 13 January 2021 Nationwide wrote off the loan and reported a default to credit reference agencies. There was no advance notice of this given to Miss G and she wasn't informed at the time.

In February 2021 Nationwide wrote to Miss G advising that her current payment plan had ended.

Nationwide called Miss G on 22 February 2021. I've listened to a recording of this call. Miss G said she was starting to get some work again and the future was "*looking brighter*" but she didn't have the money to make any payments at that moment, particularly as her freezer had just broken. Miss G asked Nationwide to consider giving her a further three-month payment holiday.

Nationwide said they wouldn't be prepared to do this due to the level of arrears. They said the best option, to give her more time, would be to default the loan, freeze the balance and send the outstanding amount to a debt collector to arrange a longer-term repayment plan. Miss G wasn't happy to accept that the account would default; she asked Nationwide to consider re-writing the loan over a longer term. Nationwide explained that wouldn't be possible as Miss G couldn't demonstrate that would be affordable. Miss G said she'd try to bring the account up to date before the default notice expired. She made it clear she wanted

to avoid a default as she was worried about how it would impact her job.

Miss G attempted to make a payment towards the arrears a few days later but was unable to locate her account online. Miss G raised the disappearance of her account as a complaint. Nationwide then discovered that the account had been defaulted in January 2021 and outsourced to a debt collector (they had passed the loan to them on 5 March). They asked the debt collector to put the account on hold.

Miss G contacted Nationwide on 10 March 2021 as she'd received a letter from the debt collector. I've listened to a recording of this call. Miss G was extremely upset. She said from her conversation on 22 February she believed she'd have until 15 March to clear the arrears before a debt collector would become involved. She wanted to know why her account had been sent to a debt collector well before the default notice had expired. She said she'd been lied to about what was going to happen, and that Nationwide had broken the law by defaulting her account without notice. Nationwide told Miss G this looked to be a system error.

Later in the call Miss G said she'd like to pay £2,800 off what she owed. She was advised to pay £2,392.39 to clear the arrears and bring the account up to date, and was told that the system would require her to rewrite the remaining balance as "*a fresh new loan*" because of the current, incorrect, default status. Miss G described what had happened as "*victimisation*". She made the payment but declined to go through her income and expenditure for the purposes of rewriting the loan. The agent told Miss G she'd have to pay £266.77 a month if she wanted to keep to the original loan term. Miss G said this shouldn't be necessary as she'd brought the account up to date and should be able to resume her monthly payments of £217 without rewriting.

Miss G complained to Nationwide that her loan had been transferred to a debt collection agency before the default notice had expired, and that her credit file had been affected.

Nationwide upheld Miss G's complaint. They accepted that the default had been reported in January 2021 in error due to the failure within the collections system, offered her £300 compensation, and apologised for the "*anxiety and distress*" caused by their errors. They also explained that to clear the arrears on 10 March 2021 she ought to have been advised to pay £2,827.37 (the payment she'd made had only brought her account up to date to the end of January 2021). Nationwide said they'd request for the credit file to be amended, but also said "*your existing loan requires to be closed and a new loan opened before any amendment can be made to your credit file*".

Miss G didn't want to rewrite the loan. She said she felt Nationwide were using the default as a punishment until she agreed to rewriting the loan.

On 15 April 2021 Nationwide sent an amendment to credit reference agencies about the default.

On 16 April 2021 Nationwide told Miss G that they'd requested the removal of the default. But they said the process for making a lasting amendment to the credit file would mean rewriting the loan and allowing the existing loan to redeem. They said this would be necessary because, so long as the existing loan remained unredeemed, a default would return to the credit file each month. Nationwide said, "*The process for the removal of the default is complex, however this process is based on the capabilities of the loan management system*".

On 7 May 2021 Miss G checked her credit report and noticed the following message: "*A Unsecured loan account will be changed to a negative status on your May report*".

Miss G complained to Nationwide about what had been added to her credit file.

On 14 May 2021 Miss G paid off the remainder of the loan.

On 27 May 2021 Nationwide responded to Miss G's complaint about the reapplication of the default in May. Nationwide confirmed what they'd previously said about the default repopulating everything month until the loan is rewritten or redeemed. They also noted that Miss G had paid off the loan on 14 May. They said they'd check the credit file to make sure it updated correctly on 1 June.

In July 2021 the Information Commissioner's Office asked Nationwide to do more to respond to Miss G's complaint regarding the information they'd reported to her credit file.

In response to the ICO's involvement, Nationwide issued a further response to Miss G in August 2021. They confirmed that as of 2 August 2021 the loan was showing on her credit file as settled and there was no default.

In August 2021 Nationwide sent Miss G a 'Notice of Sums in Arrears' which began: *"We are sending you this notice because you have failed to make the required payments under this loan agreement. If you have not contacted us, this notice is a formal demand for payment of the debt."* The letter gave a closing balance for the account as £0. Miss G described this letter as *"threatening"* and said she felt this was a deliberate act against her, not a mistake.

What Miss G told us

When Miss G brought her complaint to this service she said she felt Nationwide were *"attempting to bankrupt"* her. She told us in June 2021 that the second default Nationwide had reported (May 2021) was still showing on her credit file. Miss G explained that when she'd called Nationwide in February 2021 she'd intended to pay off all the arrears and recommence with her monthly payments; she had no reason to rewrite the loan.

Miss G was unhappy that Nationwide said the only way to remove the default from her credit file was to re-write the loan. She said, *"[they] expected me to sort out their error by going through a further Credit Score process; which would have obviously declined and shown as a further negative on my Credit File. It would have not been difficult for Nationwide to reconstruct my personal loan and confirm to me what the payments were."*

What Nationwide told us

Nationwide said they'd made a mistake by applying the default in January 2021. The loan was defaulted by the system and allocated to a collection agent without Nationwide realising the error. Nationwide confirmed *"this was not unique to Miss G"*.

Nationwide further explained that they'd advised Miss G to rewrite the loan - shift the outstanding balance to a 'new' loan account and close the defaulted one - because *"once an account defaults it will continue to report as defaulted every new reporting month until it is closed, even if it should not have defaulted to begin with."* They said if she'd agreed to rewrite the loan, she would have been able to continue paying the same monthly instalment *"so long as the term ended on the appropriate date for this to ensure the full balance was paid"*.

With regard to the 'notice of arrears' letter sent to Miss G in August 2021, Nationwide said this was sent because *"when a loan in collections is paid off and closed it needs to be manually set so that it does not send any further letters"* but Miss G's account had not been added to the relevant spreadsheet. They apologised for sending the notice of sums in

arrears letter incorrectly and said they'd taken steps to make sure it didn't happen again.

Information received from third parties

In August 2021 our investigator requested and received information from one of the main credit reference agencies. This confirmed that on 11 April 2021 the status of Miss G's loan account was showing as "Default" but by 12 July 2021 the status was "Settled".

Our investigator's view

Our investigator upheld Miss G's complaint. She said the default which appeared on her account in May 2021 was a direct result of Nationwide incorrectly defaulting the account in January 2021 and then insisting that Miss G rewrite her loan to prevent the default repopulating on her credit file. She said that it shouldn't have been necessary to rewrite Miss G's loan because she'd wanted to, and had the means to, bring the account up to date in March 2021. She said she should have been allowed to pay what she owed (the only reason she hadn't was because Nationwide had misadvised her as to what amount was outstanding in March 2021) and resume her monthly payments until the end of the loan term.

She said Nationwide's process of monitoring and repeatedly amending Miss G's credit file was not a suitable solution when the original default was their error. She noted that the rewrite became necessary to fit Nationwide's processes, but this shouldn't have been a precondition to them removing the default.

Our investigator also said that Nationwide's further error – sending Miss G a notice of arrears in August 2021 – was regrettable and a demonstration of the handling of the account as a whole.

Overall, our investigator thought Nationwide should pay Miss G a further £250 for the distress caused to her by their further mismanagement of her account.

Nationwide accepted the investigator's findings but highlighted that in most cases it was appropriate for them to require members to rewrite their loans at the end of the Covid-19 payment holidays. They said, Miss G was in an uncommon situation in that she had the funds to clear the arrears after the holiday ended.

Miss G didn't accept the investigator's view – she provided a detailed response. Whilst she thought the investigator had acknowledged what had happened, she didn't think the level of compensation was fair. She suggested increasing the award to £1,500. She highlighted the impact on her credit rating, the embarrassment and distress she's suffered, and the time it's taken her to sort out. She said Nationwide shouldn't have insisted she rewrite the loan or tried to pressure her into taking out a new loan, and that their reasons for saying this was necessary kept changing.

As no agreement could be reached, the complaint has come to me to decide.

The scope of this decision

Before I explain my findings on this complaint, I want to provide some clarity about what issues this decision will, and will not, address. Between April and September 2021 Miss G brought numerous complaints to this service which relate to Nationwide's management of her personal loan account between March 2020 and August 2021. As they all relate to the same loan account and series of events, the complaints overlap, but they've been handled separately until this point and so I'm issuing four separate decisions addressing different aspects. In summary, Miss G has complained that:

1. Nationwide unfairly marked her loan account as defaulted in January 2021 and passed it to a debt collector.
2. Nationwide reported missed payments to credit reference agencies whilst she was on payment plans and didn't offer her appropriate support in relation to her financial difficulties during the Covid-19 pandemic.
3. Nationwide reported the following adverse entry to her credit file in May 2021 - "*A unsecured loan account will be changed to negative status on your May report*".
4. Nationwide reported a 2nd default in May 2021, advised her that the only way to fix the incorrect default was to re-write the loan, and sent her a notice of arrears letter in August 2021.

In this decision, I'll address Miss G's complaint that Nationwide reported a 2nd default in May 2021, advised her that the only way to fix the incorrect default was to re-write the loan, and sent her a notice of arrears letter in August 2021.

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.

Having done so I agree with the investigator's findings that the default Nationwide reported in May 2021 was a direct consequence of their previous error of defaulting the account in January 2021 (an error which I've addressed in a separate decision and awarded compensation for). I also agree that, in the circumstances, the solution to correcting this error and stopping the default repopulating Miss G's credit file shouldn't have required Miss G to rewrite a loan that she was happy to bring up to date on 10 March 2021. The rewrite became necessary not because there was a financial need for Miss G to rewrite the loan, but because of the limitations of Nationwide's loan management system. I don't think insisting Miss G rewrite a loan she'd brought up to date (or tried to) was treating Miss G fairly.

That's not to say that requiring customers to rewrite their loans following a Covid-19 payment deferral period would always be unreasonable. There will be circumstances where a customer is unable to clear the arrears that have accumulated during a Covid-19 payment deferral. Firms are permitted to reach bespoke arrangements with borrowers who have accumulated increased balances (as typically interest will have continued to accrue) in this way and, subject to an appropriate creditworthiness assessment, it may be appropriate to rewrite the balance as a new loan over a new term in certain circumstances. But in Miss G's case a rewrite of the balance that remained once she'd paid the deferred amounts (arrears) in March 2021 should not have been necessary. Nationwide should, in my view, have been able to correct their default error and simply allowed Miss G to resume her monthly payments of £217 from April 2021. As they couldn't achieve that within the "*capabilities of the loan management system*", I think Nationwide caused Miss G further distress. The incorrect default returned in May 2021, Miss G knew that the default would keep reappearing every month until the loan was complete, and the state of her credit file became entirely dependent on Nationwide staff making a manual amendment each month. I don't think that was fair or reasonable.

With regard to the notice of arrears letter Nationwide incorrectly sent Miss G in August 2021, they've already accepted this was an error caused by the account not being added to the relevant spreadsheet. In the circumstances of what had already happened with this account I think this was a highly regrettable error which, understandably, caused Miss G further

unnecessary upset. However, I don't agree with Miss G that the compensation payment our investigator recommended should be increased. I think £250 is a fair reflection of the further distress caused to Miss G by Nationwide re-reporting the default in May 2021 and sending her an unnecessary notice of sums in arrears letter in August 2021. Whilst I acknowledge Miss G's frustration that Nationwide hadn't permanently removed the default they'd placed in error in January 2021, I think the majority of her distress was caused by the initial error for which I've already awarded £500 compensation in a separate decision.

Putting things right

I'm upholding Miss G's complaint. I don't think it was fair or reasonable of Nationwide to re-report Miss G's account as defaulted in May 2021, to insist that the only way to remove the default was to rewrite the loan, or to send Miss G a notice of sums in arrears letter in August 2021. These failings added to the distress and inconvenience Miss G was caused by Nationwide's initial error of defaulting the account in January 2021. To put this right Nationwide should:

- Pay Miss G £250 compensation.

My final decision

My final decision is that I uphold Miss G's complaint. Nationwide Building Society should put things right in the way I set out in the '*Putting things right*' section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 13 July 2022.

Beth Wilcox
Ombudsman