

The complaint

Miss G complains that Nationwide Building Society unfairly marked her loan account as defaulted and passed it to a debt collector in early 2021. She says this was a deliberate act on Nationwide's part designed to cause her personal detriment and "*financial and emotional distress*" because she has a history of dispute with them. She says her credit file has been affected, causing her embarrassment.

Miss G would like the default removed from her credit file and an explanation as to how her account came to be sent to a debt collector.

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 until October 2020.

In November 2020 Nationwide contacted Miss G to discuss her situation. As nothing had changed about her income, they offered her a nil-payment plan covering December 2020 and January and February 2021. They also explained that this would show on her credit file. Miss G agreed.

On 13 January 2021 Nationwide marked the loan as in default and reported a default to credit reference agencies. There was no 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. As she didn't have the money to bring the account up to date or resume her repayments 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 an debt collector to arrange a longer term repayment plan. Miss G wasn't happy to accept that the account would default. She 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. Nationwide issued a default notice giving her to 15 March 2021 to clear the arrears.

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 realised that the account had already been defaulted in January 2021 and outsourced to a debt collector (it had passed to them on 5 March 2021). 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 (she was later told that 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).

Meanwhile, Nationwide recalled the account from the debt collectors. It was returned to Nationwide on 11 March 2021.

Miss G complained to Nationwide that her loan had been transferred to a debt collector 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 a failure within the system, offered her £300 compensation, and apologised for the "*anxiety and distress*" caused by their error. 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 14 May 2021 Miss G paid off the remainder of the loan.

In July 2021 the Information Commissioner's Office (ICO) 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.

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 she felt victimised because she has a history of dispute with Nationwide, and that defaulting her loan was a deliberate act against her.

What Nationwide told us

Nationwide said they'd made a mistake by applying the default in January 2021. They explained their loan management system had a trigger to write off (default) accounts where 11% or less of the balance was paid over a consecutive 9-month period. Whilst this didn't usually cause an issue, the extended Covid-19 payment holidays caused some accounts, including Miss G's, to hit this trigger. 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.*"

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 about her loan being defaulted and sent to a debt collector in January 2021 without notice. She said this error caused incorrect information to be reported to her credit file repeatedly over a number of months. However, she didn't think Nationwide had acted deliberately; she was satisfied that the initial error (the defaulting of the account in January 2021) had been caused by an automated process, not specific to Miss G.

Our investigator said Nationwide should increase the compensation they'd offered to £500 in recognition of the serious impact an incorrectly reported default can have, and the fact that Miss G had felt so victimised and anxious that she paid off the loan in May 2021, earlier than she was contractually obliged to.

Nationwide accepted the investigator's findings and agreed to pay Miss G £500 compensation. They also provided screenshots from the three main credit reference agencies showing that there are no defaults showing in respect of this loan.

Miss G didn't accept the investigator's view – she provided a detailed 34-page 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 £3,000. 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 provided "*no care*" to her as a vulnerable customer, and she didn't accept the default had been caused by a computer. She strongly disagreed that Nationwide's actions hadn't been deliberate and didn't believe Nationwide had had "*multiple customers with the same issues*". She explained she thinks Nationwide hoped she'd default in March 2021 so that they wouldn't have to tell her they'd incorrectly defaulted the account in January 2021. Miss G added that she'd not been made aware of the default until March 2021 when she received a letter from the debt collector and said, "*this was very very upsetting*".

In December 2021 Miss G supplied a screenshot from a credit reference agency which showed the account status as "*paid and closed*" on 17 May 2021, but also showed a "*Default balance*" of £4,239. Although there was no 'D' for default in the payment history.

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.

Miss G has also said that when managing her loan account Nationwide discriminated against her based on her protected characteristics.

In this decision, I'll address Miss G's complaint that Nationwide unfairly marked her loan account as defaulted in January 2021 and passed it to a debt collector. And her complaint that when managing her loan account Nationwide discriminated against her based on her protected characteristics.

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've reached the same outcome as our investigator did and for broadly the same reasons – I uphold Miss G's complaint.

It's common ground that the defaulting of Miss G's account in January 2021 by Nationwide was an error, and unjustified given what had been agreed in light of the prevailing circumstances of the Covid-19 pandemic. It was incorrect to treat her account as defaulted at that stage because, although she'd not met her financial obligations under the loan agreement since February 2020, this was not a business as usual situation. Her payments had been deferred from March 2020 to October 2020 – in other words Nationwide had permitted her to make no payments for those months without considering her to be in arrears, in line with the temporary guidance issued by the regulator to financial businesses. Miss G was then on a nil-payment plan for the months of December 2020 and January and February 2021.

So, by 13 January 2021 when the account was marked by the system as defaulted, I think that was premature. Although Miss G was three months in arrears at this point (for November, December and January), she hadn't been given any deadline to pay the arrears. Nationwide accept that Miss G didn't receive any of the usual notices that are required to be

sent before a lender marks an account as defaulted.

I agree that Nationwide didn't treat Miss G fairly or reasonably here. They incorrectly reported a default to her credit file and set in motion the process for sending her loan account to a debt collector. The first Miss G knew of this was when she received a letter from that debt collector and, understandably, given the wider circumstances of her relationship with Nationwide, this caused her considerable distress. From her perspective she'd done all that she could to protect her credit rating during the unprecedented circumstances of the pandemic; she'd reached out for help with payment deferrals, and when those expired agreed a nil-payment plan. And she was planning to bring her account up to date before the default notice, issued by Nationwide after her conversation with them in February 2021, expired.

But having thought carefully about Miss G's comments on our investigator's recommendation that Nationwide increases the compensation payment to £3,000, I don't agree that the payment should be increased further. I think £500 is fair compensation for what happened and recognises that this mistake caused Miss G considerable distress, upset and worry. I understand that Miss G was acutely worried about what her employers would make of the suggestion that she couldn't manage her finances. This compensation also reflects that the incorrect default marker will have had an impact on Miss G's credit rating until it was removed.

I shall address the issue of the default marker returning to Miss G's account in May 2021, and what Nationwide told Miss G was necessary to make their amendment to her credit file last, in a separate decision. However, I can see that Nationwide did take steps to remove the incorrectly placed default marker in April 2021 and again in May and June 2021. I'm also satisfied that the account's status in July 2021 was correctly showing as "Settled".

I appreciate that in December 2021 Miss G supplied a screenshot from a credit reference agency which showed the account status as "paid and closed" but also showed a "Default balance" of £4,239. I can only suggest that Miss G raises this apparent inconsistency with the credit reference agency concerned. I say this because the evidence I've seen suggests that the three main credit reference agencies are no longer showing the incorrect default, only five missed payment markers for November and December 2020 and January to March 2021. I will address Miss G's complaint about these missed payment markers in a separate decision.

Finally, although I know that Miss G feels strongly that the account was defaulted and reported to credit reference agencies incorrectly as a deliberate act by Nationwide, I haven't seen any evidence that supports that being the case. Miss G is correct that there have been several errors made by Nationwide in relation to this account and when experienced collectively I can understand why she's felt targeted. But I've seen no evidence that what's happened here is connected to her previous disputes with Nationwide; I'm satisfied that the account was defaulted in January 2021 because the automated system wasn't proactively adjusted to take into account the consequences of Covid-19 payment deferrals. I've also seen no evidence that the errors which occurred here were part of any attempt by Nationwide to treat Miss G less favourably because of any protected characteristic she has.

Putting things right

To compensate Miss G for the distress and inconvenience caused by their error of incorrectly marking her loan account as defaulted in January 2021 and passing it to a debt collector, Nationwide should pay Miss G £500.

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