

The complaint

Mrs B complains that Lloyds Bank PLC didn't explain the impact a payment deferral would have on her credit file.

What happened

Mrs B held two loan accounts with Lloyds. Due to the pandemic and associated lockdown, Mrs B's ability to repay the loans was adversely affected. Lloyds provided Mrs B with two, three monthly payment deferrals in line the Financial Services Authority (FCA) guidelines introduced because of the pandemic. Part of the guidelines made it clear that when a 'covid payment deferral' was in place, this information wouldn't be recorded on a consumer's credit file. And this is what happened in Mrs B's case.

But when the covid assistance came to an end, Mrs B was unable to restart her contractual loan repayments. Lloyds discussed various options available with Mrs B. Ultimately, Lloyds offered a new payment deferral to provide Mrs B with some breathing space. Mrs B accepted this solution.

Mrs B later discovered that Lloyds had recorded adverse information on her credit file as a result of this latest arrangement. She says Lloyds didn't explain clearly how agreeing to a further payment deferral would impact her credit file.

Mrs B complained to Lloyds. But it didn't uphold her complaint. It said that it did explain the impact the payment deferral would have. And that when Mrs B sought clarification on what this meant, she was told her credit score would go down as a result.

Unhappy with the response, Mrs B referred her complaint to us.

One of our investigator's looked into it, but she didn't uphold the complaint. She thought Lloyds had sufficiently explained the impact of entering into a payment deferral (after the initial covid relief had ended) would have on Mrs B's credit file. She added that even she accepted the information provided could have been made clearer, she didn't think Mrs B would have been in a position to do anything different as the income and expenditure Mrs B completed with Lloyds showed an income deficit.

Mrs B didn't agree, so the complaint has been passed to me to reach a final 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.

Firstly, I can see that Mrs B has also raised concerns with Lloyds about the distress caused when she received letters about the arrears on her account. But as the investigator has explained, a lender is required to send letters setting out the status of the account and this still applies when an arrangement is in place. But it seems Lloyds offered Mrs B £50 as a gesture of goodwill. It's not clear if Mrs B accepted this offer. If not, Mrs B should contact Lloyds directly about this if she now wants to accept the offer.

But the crux of this complaint is about the adverse information Lloyds recorded on Mrs B's credit file which was responded to by Lloyds in a final response letter dated 30 December 2020. So, for clarity, this decision relates specifically to the information recorded on Mrs B's credit file.

Having considered everything, I've reached the same overall conclusion as the investigator. I know Mrs B will be disappointed as I appreciate that her financial circumstances were impacted by the pandemic which was something outside of her control. But Lloyds is obliged to record factual information on a customer's credit file. So, I can only uphold the complaint if I found that Lloyds had recorded the information incorrectly and I don't think it did. I'll explain why.

As mentioned above, the FCA guidelines made it clear that when a 'covid payment deferral' is put in place, the customer's credit file shouldn't be negatively affected. However, the guidance said that any relief was intended to be temporary and applied for a maximum of six-monthly payments. After this, the guidance said:

"Firms should take reasonable steps to contact their customers in good time before the end of an initial payment deferral period about resuming payments and to engage with them about their options when it expires".

I think this means that a lender should look to assist a consumer – still experiencing financial difficulties after six months covid relief, positively and sympathetically in line with the normal lending regulations.

And Mrs B hasn't disputed that she had a discussion with Lloyds. Nor has she said it didn't assist her. Rather she says, when Lloyds offered a further three-month payment deferral, it didn't explain clearly how this would impact her credit file. And, had it done so, she says she would have asked Lloyds to consider other alternatives. So, I've thought carefully about what information Lloyds gave Mrs B and whether there were other alternatives available which would have avoided any negative impact on her credit file.

Lloyds – like all regulated lenders, is required to explain the impact of a consumer agreeing to a reduced or nil payment plan or indeed any arrangement where contractual payments are not being met. Here, Lloyds said its representative read out a script setting out the terms of the payment deferral and the implications of entering into such an agreement. It says the script includes information about the impact on a consumer's credit file. I think it's important to explain that I consider the reading of a script in these circumstances to be normal business practise and that such scripts generally include all the information a lender is required to provide. This ensures accurate and consistent information is provided.

While Lloyds has told us a recording of the call is no longer available, the customer notes it recorded at the time of the call indicate that the script was read to Mrs B. And Mrs B hasn't disputed she was told some information but she says didn't fully understand what was being said. So, on balance, I'm persuaded the script was read out to Mrs B and that the script contained information about the impact on her credit file.

Of course, I do fully appreciate that Mrs B had a lot of information to take in during that call. So, I accept that Mrs B may not have fully understood or remembered exactly everything that she was told. But I can see that Lloyds followed up the call with a letter setting out the payment deferral terms. The letter said:

- *'being behind with your payments can affect your credit score and make it harder and more costly for you to borrow money.*
- *It may also stay on your credit file for 6 years, but the impact on your credit score will reduce if you keep up with your payments'.*

So, even if the information wasn't clear in the call, I think this letter clearly explains that entering this payment deferral would impact Mrs B's credit file by reducing her credit score thereby making it more difficult to obtain new credit. And that the information would remain on her credit file for six years. Overall, I think Lloyds did enough to explain to Mrs B that agreeing to a nil payment plan would negatively impact her credit file and the implications of that.

I have thought about what Mrs B has said about doing something different had she understood the impact the payment deferral would have on her credit file better. But I've seen the income and expenditure breakdown Mrs B went through with Lloyds. And I'm satisfied this shows Mrs B didn't have the disposable income to make payments towards her loans – her outgoings were more than her income. So, I don't think there would have been any alternative solution available to Mrs B that would have avoided a negative impact on her credit file at that point in time.

I appreciate Mrs B has since told us that she repaid one of the loans, and cleared the arrears on the other, using money drawn down from her husband's pension. But, from what I've seen, this didn't happen until March 2021 - several months after the final payment deferral was agreed. And I've not seen enough information that would make me think Mrs B could have done this as soon as she did. So, I'm not persuaded Mrs B was in a position to do anything different when she contacted Lloyds when the covid relief ended. Even if Mrs B could have afforded to make some nominal payments at this point, this would have still been reflected negatively on her credit file.

As mentioned above, Lloyds is obliged to record factual information on Mrs B's credit file. And I think the information it recorded is an accurate reflection of what happened with her loan accounts. So, I won't be asking Lloyds to remove the information it recorded on Mrs B's credit file.

I might be helpful for Mrs B to know that she can contact the credit reference agencies to ask that a 'notice of correction' is added to her credit file. This is an opportunity for Mrs B to make other potential creditors aware that the payment problems she had isn't reflective of her general approach to meeting her repayments and came about because of the impact of the pandemic. More information can be found about a notice of correction here:

<https://www.experian.co.uk/consumer/guides/notice-of-correction.html>

<https://help.equifax.co.uk/EquifaxOnlineHelp/s/article/What-is-a-Notice-of-Correction1>

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 13 April 2022.

Sandra Greene
Ombudsman