DRN-3336779

The complaint

Ms O is unhappy with the outcome of her complaint following a claim she made to Shawbrook Bank Limited under Sections 56 and 75 of the Consumer Credit Act 1974 (the 'Act') for some allegedly mis-sold solar panels.

What happened

The parties are aware of the background, so I don't intend to set it out in detail here. But in summary, Ms O bought some solar panels in 2014 from a supplier that I'll call 'S'. Ms O was told that the panels would pay for themselves and that the £4,500 loan she took from Shawbrook wouldn't cost her anything.

Shawbrook said to Ms O that its calculations indicated that the panels were performing as predicted and would be self-funding over the 15-year term of her loan. So, it didn't think that S had misrepresented the benefits of the system to Ms O. The benefits that she received in terms of Feed-in-Tariff (FIT), export payments and electricity savings would more than pay for the loan.

Shawbrook also explained to Ms O how the loan worked in terms of interest payable. The interest on the loan was 9.9% a year, payable over 15 years. So, Ms O would ultimately end up paying £4,413.60 of interest, making a total payment of £8,913.60 at £49.52 a month. That means that the principal of her loan (the £4,500 she borrowed) will reduce slowly over that 15-year period until at the end it's zero. Shawbrook did, however, take some time to deal with Ms O's claim and offered her £200 for the distress and inconvenience that this will have caused her.

Our investigator looked into Ms O's complaint but struggled to get the information that she needed to address it from Shawbrook. When she did finally get the information she required, she too concluded that the system would be self-funding and so no compensation was due for the alleged misrepresentation by S. She also agreed that £200 compensation for the upset caused was a fair offer.

Ms O didn't agree and asked for an ombudsman's 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.

Ms O will likely be disappointed to hear that I agree with our investigator. Her system does appear to be self-funding and I think that £200 compensation is a fair offer for the upset and inconvenience she was caused through Shawbrook not considering her claim diligently.

May I firstly say I completely understand why the benefits of the panels, and how these correspond to the cost of the loan, can be quite confusing for customers. Ms O's situation isn't unusual. And the explanation given to her by S can't have been very clear. But that doesn't mean the benefits she was told about were misrepresented.

Ms O has told us that she thought that the loan would be paid for by the FIT, export payments and electricity savings. And it does appear that will be the case. The annual generation for her panels is around the amount S predicted (3,453 kWh). Ms O's system generated, on average, 3,310 kWh a year during the first 4 ½ years (95% of the predicted amount). And from this she earnt around £575 a year in FIT and export payments (S predicted she'd get £591 a year). Electricity generation can only ever be an estimate, as its affected by weather conditions and the amount of sunlight in any given year. So, I'm satisfied that the generation was within a reasonable margin of that estimated.

By my calculation, Ms O will likely receive around £8,625 over the 15-year term of the loan in FIT and export payments. She'll then go on to receive another £2,875 over the remaining 5 years of the 20-year FIT payment scheme.

Ms O will also be saving electricity through her use of the power generated. Normally we'd expect a customer, on average, to use 37% of the electricity generated each year. How much a customer actually uses will depend on what their consumption is during daylight hours when the panels are generating. So, if you're at home more during the day or, for example, you set the washing machine or dishwasher to run whilst you're out, then the benefits may be greater.

So, if Ms O uses 37% of the generation, that's 1,225 kWh of electricity savings a year. In calculating the money saved, Shawbrook will usually use a figure of 15 pence per kWh. So, that's a saving of £184 a year – or £2,760 over the 15 years of the loan – not taking into account any electricity cost inflation – which there of course will be.

S estimated Ms O would save £262 a year. So, on the face of it, that looks like an over-estimation. But back in 2014, when the panels were installed, the average usage was commonly thought to be nearer 50% - which would be a saving of £248 a year. So, I can see where S got its estimated figures from, particularly considering that Ms O's system has performed at 95% of expectations. Therefore, I don't think there was a misrepresentation here. And I'm afraid that I don't think the estimations that S made were unreasonable at the time. I don't have all of Ms O's electricity bills from before and after the panels were fitted. So, I can't calculate how much she's actually saved in terms of electricity. But even if I am to use the lower figure of £184 electricity savings a year, Ms O's panels still appear to be self-funding.

What's important to emphasise is that I can only hold Shawbrook responsible under sections 56 and 75 of the Act for any representation by S that turns out not to be true or was otherwise misleading. And for Ms O, the indications are that the estimates given, within acceptable tolerances, have turned out to be correct so far and will likely continue to be. This means that if you add it all together, over the 15-year term of the loan, Ms O is likely to earn and save at least £11,385. That's against a loan cost (including interest) of £8,913.60. I appreciate that Ms O also paid some of the cost of the panels in cash when she first bought the panels. I believe that was around £2,500 to £3,000. So, if you add that to the amount of the loan, the savings just about match up to the amount spent.

It's also possible that the amount Ms O saves may well be much more than the estimates if she either uses more electricity, or the charge per unit of electricity continues to increase - as it has been of late. Most customers, through the energy cost cap, are paying around 21 pence a kWh at the moment. And this will be going up to 28 pence in April. So, the figure of 15 pence that I've used may well be quite an under-estimate.

It's also important to remember that Ms O will continue to earn money from her panels after the loan has been paid off. So, she'll then get the full benefit of the FIT payments and the electricity generated. I can see why Ms O will have thought that she's ended up paying more, given she now has the loan payments to make and the electricity use still to pay for. But her bills will include gas use too - which the solar panels would never have reduced – and her electric use will be lower than it otherwise would have been. You also can't look at this long-term investment on a day to day cost basis.

Ms O has said that it looks like very little has been paid on her loan. That's because, in the early years, interest makes up most of the repayments made. In Ms O's case, around £34 of every £49 she pays is interest at the beginning. So, the £4,500 she borrowed will only go down by about £15 a month. After the first 5 years, Ms O will therefore still have owed around £3,600 on which interest will continue to have been charged. But that interest element will reduce over time so that nearer the end of the 15-year term, she'll be paying off much more of the principal.

I hope my summary above helps explain why I think Ms O is actually likely to receive what she was told she would. It may not look like this from day to day as the loan and electricity bills still need to be paid. But the solar panels are a long-term investment. For the first 15 years, Ms O is right that the profit she makes is mostly taken up in paying for the loan. But if electricity prices continue to increase as they have been, Ms O could end up making significantly higher savings much earlier than was predicted. And if she were able to, paying off a proportion of the loan early would see Ms O save a significant amount of interest too – she'd then get the benefit of the profits from the panels much sooner than if she kept the loan going for 15 years.

I see Ms O was also worried about some discrepancies in her loan documents. I've now seen the final signed loan document, which was for £4,500, with an interest rate of 9.9% over 15 years. So, Ms O is paying for the loan she took out.

Shawbrook took some time to deal with Ms O's claim. And it's offered £200 compensation for the distress and inconvenience this will have caused her. I think that's a fair offer.

My final decision

Shawbrook Bank Limited has made an offer to settle this complaint by paying £200 compensation for the distress and inconvenience caused to Ms O. I consider that this amounts to fair compensation in all the circumstances. I require that Shawbrook Bank Limited pay Ms O £200 if it hasn't already.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms O to accept or reject my decision before 31 March 2022.
James Kennard
Ombudsman