

The complaint

Mrs S complains that The Co-operative Bank Plc (the Co-op) incorrectly advised her she could have a payment holiday on her loan and then transferred her loan to a debt recovery company.

What happened

In 2016, Mrs S took a career development loan with the Co-op, repayable over five years. While the Co-op provided the loan, it fell under a special scheme administered by a government agency who also acted as guarantor for the amount owed.

In April 2020, Mrs S contacted the Co-op. She explained that her income had been adversely impacted as a result of the effects of the global pandemic. She asked the Co-op if they would agree a payment holiday to assist her.

The Co-op told Mrs S they were still awaiting guidance from the government agency involved in administering the loan scheme. But they agreed she could miss her April and May payments in the interim. The Co-op cancelled her repayment standing order and asked Mrs S to contact them again in June to agree a way forward. They told her they could either discuss an agreement for the missed payments or the loan could be transferred to a specialist debt management company.

Mrs S wrote to the Co-op in June 2020 about her loan. But she didn't receive a response from them. So, Mrs S rang the Co-op in July 2020. The Co-op said that her account was in the process of being transferred to the debt management company. This was because of the payments she'd missed. Mrs S explained what she'd been told. She wasn't happy with her loan be transferred. So, she raised a complaint.

The Co-op didn't uphold her complaint as they didn't think they'd done anything wrong. When Mrs S challenged their initial decision, the Co-op revisited her complaint. Having listened to a recording of her call to them in April 2020, they agreed she'd been misinformed. But they said they couldn't reverse the transfer process.

Having upheld Mrs S's complaint, the Co-op apologised and made two compensation payments totalling £200.

Mrs S wasn't happy with the resolution offered by the Co-op. She wanted them to take her loan back from the debt management company. As the Co-op were unwilling, she referred her complaint to this service

Having investigated Mrs S's complaint, our adjudicator thought the Co-op's response to Mrs S's complaint was fair and reasonable. Mrs S didn't agree. She still thought the Co-op should retrieve her loan from the debt management company.

As an agreement couldn't be reached, Mrs S's complaint has been passed to me to consider.

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.

The facts of this case are not in dispute. The co-op agreed that Mrs S was incorrectly advised to miss her loan repayments in April and May 2020. More importantly, Mrs S wasn't correctly told about the consequences of missing those two repayments.

The situation was further impacted by the Co-op cancelling Mrs S's repayment standing order and not then reinstating it in June 2020. In addition, while Mrs S says that she wrote to them about her account in June 2020, the Co-op don't appear to have received that letter.

From the information provided by the Co-op, it appears that Mrs S's loan was administered and guaranteed by a government agency who issue their own guidance to lenders that are registered for the scheme. The Co-op are one of the scheme's approved lenders. In return, the government agency guarantees Mrs S's loan to the Co-op. But their guarantee is restricted to the original term of the loan. So, any variation to that term could result in Mrs S's loan extending beyond the original guarantee.

Where two payments or more are missed, the Co-op are permitted to claim under the government's guarantee. The government agency repays the Co-op and the remaining debt is transferred to a debt management company. This company is effectively acting for the government agency in recovering any remaining amount outstanding.

The critical point here is that the Co-op has confirmed that neither they nor the debt management company report any adverse information on Mrs S's credit file for this type of loan. The benefit of transferring to the debt management company is they appear to have complete flexibility when it comes to varying the original loan agreement. So, while I agree the Co-op misinformed Mrs S about deferring payments, in reality, I can't see she's been financially disadvantaged by that.

The Co-op has paid Mrs S £200 by way of an apology for giving incorrect advice. They've also provided assurances that they haven't reported any adverse information to the credit reference agencies. While the Co-op did misinform Mrs S, I think the compensation offered feels fair in all the circumstances here. And so long as nothing adverse is reported by the debt management company in relation to the transfer of the loan, I don't believe Mrs S will have been disadvantaged by this outcome.

I would recommend that Mrs S check that her credit file hasn't been impacted. In the event that anything adverse is found in relation to this loan, this should be corrected by the Co-op, in line with their assurances.

I realise Mrs S may be disappointed, but I shan't be asking the Co-op to do anything more here.

My final decision

For the reasons set out above, I don't uphold Mrs S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 1 June 2022.

Dave Morgan
Ombudsman