

The complaint

Mr H complains that Lloyds Bank PLC unfairly closed his loan account and recorded a default on his credit file.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

Mr H took out a loan with Lloyds in March 2018. In April 2020 Lloyds approved a payment break under the Financial Conduct Authority's Payment Deferral Guidance. The payment break was extended and ran until October 2020.

At the end of the payment break, Mr H spoke with Lloyds and explained he was still unable to make his loan payment. Lloyds took information about Mr H's income and outgoings and agreed to suspend interest on his loan for three months and that no payments were required during that time. Lloyds sent Mr H confirmation in a letter. Lloyds' letter confirmed the payment plan ended on 4 February 2021. Mr H has told us he thought the payment plan ended in March 2021.

On 12 March 2021 Mr H made a payment of £1,250 towards the arrears on his account. Mr H has told us he made the payment over the phone and was told he had remaining arrears of around £920. Mr H also says he was told to start his normal monthly payment from April 2021.

On 13 March 2021 Lloyds sent Mr H a formal demand. Mr H called Lloyds on 14 March 2020 and it confirmed his payment had been received and credited to his account. Mr H also wanted to make sure a payment he'd made towards his credit card balance had been received by Lloyds as well. Lloyds' call handler confirmed receipt of Mr H's payment and explained it could take a couple of days to show on his account.

Mr H made his contractual monthly payment on 7 April 2021. On 15 April 2021 Lloyds terminated Mr H's loan and recorded a default on his credit file.

Mr H went on to raise a complaint and said Lloyds had unfairly closed his loan and reported a default. Lloyds didn't agree it had made a mistake and didn't uphold Mr H's complaint.

Mr H went on to refer his complaint to this service and it was passed to an investigator. Th y thought Lloyds had dealt with Mr H's complaint fairly and didn't ask it to do anything else.

Mr H asked to appeal and explained he hadn't received any post from Lloyds at all regarding his loan account. Mr H also confirmed that the letters Lloyds claims to have sent weren't made available via his online banking facility. As Mr H has asked to appeal, his complaint has been passed to me to make a decision.

What I've provisionally 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.

I've reached a different view to the investigator concerning how to fairly resolve Mr H's complaint. I'm not persuaded that it was fair for Lloyds to close Mr H's loan account and record a default in April 2021.

Mr H has told us he thought the payment plan agreed with Lloyds in November 2020 was due to end in March 2021. But Lloyds says the payment plan was for three months, not four, and ended on 4 February 2021. Lloyds' letter to Mr H confirms the end date of the plan was February 2021, not March 2021. I know Mr H has explained he didn't receive Lloyds' letter, but I think it's more likely than not that the call handler confirmed a payment plan of three months, in line with the letter they sent.

Mr H has told us he hasn't received any of the correspondence Lloyds has sent him regarding payment holidays and plans or its decision to close and default his loan. I can't say why that is. But Lloyds has provided copies of all the letters it sent and I can see they're addressed in line with the details we hold for Mr H. I'm satisfied Lloyds did write to Mr H as it claims.

Whilst I'm satisfied Lloyds did write to Mr H about the end of his plan, arrears and decision to close his account, I think it's fair to look at the timing of his payments in March and April 2021. Mr H paid £1,250 to his loan over the phone on 12 March 2021. Lloyds says there's no record of that call, but I've listened to a follow up call Mr H had with Lloyds. And Mr H has also provided a detailed recollection of the call and information he was given. On balance, I accept Mr H did call Lloyds on 12 March 2021 and paid £1,250 to his loan. Whilst the payment wasn't sufficient to cover the total arrears, it did reduce the figure by over half.

Lloyds then moved to send Mr H a formal demand the following day, on 13 March 2021. But that formal demand incorrectly says the outstanding arrears were £2,3286.66. That figure failed to take into account the payment Mr H had made of £1,250 the day before. I appreciate it takes time to update a payment on Lloyds' systems. But I don't think it's fair for Lloyds to rely on a formal demand that contains the wrong information.

In addition, I note the formal demand encouraged Mr H to call Lloyds to discuss his loan and options for clearing the arrears. Mr H called Lloyds on 14 March 2021 to check his payment made on 12 March 2021 had been received. That call recording has been provided. I understand Mr H said he would make a follow up payment within a couple of days, but it's not clear whether he was referring to his loan or credit card and the call handler didn't check. Nor did the call handler bring up the fact that Mr H's £1,250 payment was insufficient to clear the full arrears balance. Given the situation, I'd have expected Lloyds to make sure Mr H was fully aware of what he needed to pay to stop his account closing. I think the call handler should've done more to help Mr H.

Mr H made his next contractual payment on 7 April 2021 and has explained he was going to clear the remaining arrears of around £920 a short time later. But despite Lloyds receiving a substantial payment towards the arrears and Mr H's April 2021 payment, it still took the step of closing and defaulting his loan. I'm not persuaded that was fair in the circumstances of Mr H's complaint. In my view, had the call handler on 14 March 2021 explained exactly what Mr H needed to pay to avoid his loan account closing he would've made arrangements to do so.

Whilst close, I think the decision to close Mr H's loan and record a default on his credit file as premature and unfair. As a result, I intend to uphold Mr H's complaint.

Mr H has told us he's had difficulty obtaining other credit, including a mortgage, as a result of Lloyds' actions. Whilst I agree the decision to record a default was unfair, there would always have been arrears on Mr H's credit file and a payment plan from November 2020. The arrears would've continued to be reported until cleared. So there would always have been a degree of adverse information on Mr H's credit file as a result of the payment plan and arrears.

I can see the situation has been stressful for Mr H and, as I've said above, I think Lloyds could've done more to support him at an already difficult time. As a result, I intend to tell Lloyds to pay Mr H £200 for the distress and inconvenience caused. In my view, that figure fairly reflects the impact of the issues raised on Mr H.

Mr H has told us he wants the loan to be reinstated and for payments to resume. I think that's fair in the circumstances. But Mr H should be aware that Lloyds will likely have to extend the term to ensure the missed payments from April 2020 onwards are made if he's unable to clear them in a lump sum. Based on the information I've seen so far, I intend to tell Lloyds to settle as follows:

- *Remove the default and adverse information from Mr H's credit file from the date of default onwards*
- *Contact Mr H to discuss reinstating his loan account and extending the term (as required)*
- *If the debt has been sold to a third party, Lloyds should take steps to retrieve it*
- *Pay Mr H £200 for the distress and inconvenience caused*

In my provisional decision I asked both parties to respond with additional information they wanted me to consider before I reached my final decision. Mr H responded and confirmed the loan had been repaid. Mr H also explained the default recorded on his credit file had caused problems obtaining credit and a mortgage. Lloyds responded and said it felt the payments Mr H made to his account showed his was in financial difficulties and the decision to apply a default to his loan was reasonable.

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.

I've reviewed all the information available again and considered both parties' responses to my provisional decision. I'd like to thank both parties for their responses and patience whilst the case has been with us.

Mr H has confirmed the loan balance was repaid. That means there's no need for Lloyds to take further action to reinstate it or retrieve it from a third party. Mr H has also told us about problems he has experienced obtaining credit. But, as I said in the provisional decision, whilst I agree the decision to default the loan was unfair, there were genuine arrears recorded on Mr H's credit file because of the payments made. So whilst I agree the default is unfairly reported, I haven't found it was the only issue that could've impacted Mr H's applications.

I've considered the level of compensation awarded and remain of the view that £200 is fair, for the same reasons.

Lloyds responded to say the payments Mr H made to his account showed it's decision to close and default it was reasonable. But I've already explained why I think it was unfair for

Lloyds to record a default on Mr H's credit file. The information Lloyds has provided hasn't changed my view.

As I haven't been persuaded to change my view, I'm going to proceed and uphold Mr H's complaint.

My final decision

My decision is that I uphold this complaint and direct Lloyds Bank PLC to settle as follows:

- Remove the default and adverse information from Mr H's credit file from the date of default onwards
- Pay Mr H £200 for the distress and inconvenience caused

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 17 May 2022.

Marco Manente
Ombudsman