

The complaint

C complains that the Direct Debit for its loan repayments wasn't switched over when it moved its account from National Westminster Bank Plc ("NatWest") to another bank.

C is a business which is represented in this complaint by Mr R. For ease of reading, I'll refer to all actions and submissions as having been made by Mr R.

What happened

Mr R had a business current account and a business loan account with NatWest. There were a number of Direct Debits set up on the current account. In January 2021, Mr R switched the current account to another bank, which I'll call S. He understood that all the Direct Debits would automatically transfer to S. But the Direct Debit for the loan repayments wasn't switched over, causing the next loan repayment to be missed.

Mr R also says he couldn't access his NatWest online banking after the switch. He says he wasn't told this would happen and needed access so that he could complete his tax returns.

Mr R complained to NatWest in March 2021. It didn't uphold the complaint. It said that the timing of the switch-over was too close to the loan repayment date for the Direct Debit to be included in the switch. Regarding the online banking facility, it said that Mr R couldn't expect to retain access to this after he'd left NatWest. NatWest also said that Mr R hadn't made any payments to the loan account since the switch. It said it had tried to contact him about the arrears but didn't get a favourable response.

Mr R wasn't happy with NatWest's response and brought the complaint to this service. Since then NatWest has explained that, because of a known internal error, it has to manually transfer Direct Debits for NatWest loans. This wasn't done in Mr R's case. NatWest said that Mr R should have received a letter telling him that he needed to set up a standing order from his new account with S for the loan repayments. But it can't confirm that this letter was sent.

Our Investigator didn't think NatWest had acted fairly and recommended that it pay compensation of £100 to Mr R for its mistake in not telling him he needed to set up a standing order. Following further discussions with our Investigator, NatWest said that when Mr R restarts payments to the loan account, it will also refund all arrears interest and remove any adverse reporting about the loan from Mr R's credit file.

Mr R wasn't happy with this suggestion and didn't think compensation of £100 was enough. He said it wasn't until he referred the complaint to this service that NatWest admitted it had made a mistake. He said it had previously implied that the fault was his. He said he'd been told by NatWest's complaint manager that no interest or other charges would be applied to his account while it was in the complaints system. So he said these shouldn't have been applied in the first place.

I issued a provisional decision on 20 April 2022. I provisionally decided that NatWest should pay Mr R compensation of £300, refund all arrears interest and any charges applied to the

loan account from February 2021 onwards and ask the Credit Reference Agencies to remove any adverse data reported about the loan from February 2021 onwards.

Mr R didn't accept the provisional decision. NatWest agreed to the proposed compensation, but it wanted the arrears on the loan account to be addressed. It suggested that the arrears interest should be removed and the credit file data updated upon Mr R clearing the arrears but not before. It said that the loan repayments had remained payable each month throughout this complaint and that making the adjustments once the arrears are paid off would put Mr R back in the position he'd have been in but for NatWest's mistake.

Mr R didn't agree to that proposal. He said that he'd been told by NatWest that it wasn't advisable for him to continue making the monthly loan repayments while the complaint was ongoing. He doesn't accept that there are any arrears on the account.

I have liaised with the parties, trying to seek a workable solution to the issue of the outstanding loan balance. NatWest says it can't re-age the loan account, so I can't direct it to do that. Mr R suggested a new loan to pay off the old debt and start afresh. NatWest agreed to create a new loan which would repay the old one. It proposed that the new loan amount would be the total amount outstanding under the original loan, that the monthly repayment would be the same and the interest rate would be the same. In effect, it said that there would be no difference to Mr R from the original loan other than the duration would go on beyond the original term.

Mr R didn't agree to that. He questioned whether the amount of the new loan would include interest or any other late payment charges. He didn't want to keep the same interest rate and wasn't happy with the way the arrangement would be reported on his credit file. And he thought that NatWest should pay him compensation of £1,500.

As the parties haven't been able to reach agreement, I'm now making a final decision about this complaint. My reasons are set out below.

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.

It's not disputed that the Direct Debit for the loan repayments wasn't switched over to Mr R's new account. NatWest has confirmed that it knew it needed to manually transfer this Direct Debit. It didn't do so. It has also confirmed that it should have written to Mr R to advise him to set up a standing order. It didn't do so. So I'm satisfied that NatWest made mistakes here.

When Mr R complained to NatWest, it didn't identify these mistakes. Instead, it said the reason the Direct Debit hadn't transferred was because the switch was too close to the loan payment date. It's now clear that this wasn't the reason. So the information in NatWest's final response letter was incorrect. That was a further mistake by NatWest.

Mr R feels strongly about this and says that NatWest deliberately tried to cover up its mistake and blamed him for the Direct Debit not transferring. Having read NatWest's letter, I can understand why he feels there was an implication that it was his fault. I think the letter could have been worded better. But I haven't seen any evidence that NatWest deliberately tried to conceal its mistake.

I find it more likely that the incorrect information in the final response letter was a mistake and that it was only when the complaint was looked into further (following the referral to this service) that the real reason for the problem with the Direct Debit was discovered. I don't

think this was intentional, but it did add to the distress and inconvenience for Mr R.

The best way for NatWest to put things right now would be to pay Mr R compensation to recognise the impact of these mistakes. Having thought about everything again, I also think it needs to take some steps in relation to the loan account.

The effect of the Direct Debit not transferring was that the loan account fell into arrears. Mr R thought the Direct Debit would be transferred along with his other Direct Debits and he had no reason to think otherwise. So he can't reasonably have been expected to have done anything differently in relation to the switch over. Therefore, I don't find it to be his fault that the loan payment was missed following the switch.

When Mr R became aware there was a problem, he complained to NatWest. That was in March 2021. I don't think it was unreasonable that he didn't make any payments to the loan account while he had an active complaint with NatWest. At that stage, he thought the Direct Debit should have transferred and thought NatWest was at fault. So it was reasonable for him to expect that the issue would be resolved with the investigation of the complaint.

NatWest responded to the complaint in May 2021 and Mr R indicated his intention to refer it to this service. The contact notes provided by NatWest confirm that Mr R was told in a phone call on 18 May 2021 that his account would be placed on hold and that a further hold would be applied when he provided a reference number from this service. Mr R called back and provided the reference number on 2 June 2021.

NatWest's notes confirm it told Mr R that interest and charges would continue to accrue on the loan. But it said it would look at this if the complaint was resolved in his favour. The notes also confirm that Mr R wanted to set up a payment plan in May 2021, but NatWest's adviser told him that doing so might adversely affect his case and she didn't recommend it.

I've asked NatWest some more about this since issuing my provisional decision. It acknowledges that the account was on hold but says that this doesn't stop a customer from making payments and it doesn't stop arrears building up because the contractual requirement to make monthly payments remains. I understand that position.

But NatWest has now been able to locate recordings of two phone calls it had with Mr R at the time. So I've listened to those and thought again about what Mr R says he thought would happen to his account. NatWest says that the conversation was about the arrears, not the ongoing monthly payments, but I don't think that's clear from the phone conversation and it certainly wasn't explained to Mr R in that way.

Mr R said during the call that it would be sensible for him to make some sort of payment even though the complaint was ongoing. The call handler then sought advice from a colleague about the effects of setting up a payment plan. But Mr R hadn't suggested or asked for a payment plan and he wasn't party to that discussion. When the call handler came back to Mr R, she said it wasn't a good idea to put a plan in place as the Financial Ombudsman Service might view that as acceptance by Mr R of NatWest's response to his complaint. She said she would put a hold on the account which would remain in place until it was resolved. She also said that interest and charges would accrue during that time, but that NatWest would look at those if the complaint were resolved in Mr R's favour.

In the circumstances, I find it understandable that Mr R didn't think he needed to make payments until the complaint was concluded. And he wasn't told that this could have adverse consequences for his credit file. So I don't think it's fair if NatWest has reported adverse information to the Credit Reference Agencies. I also think that NatWest should remove interest on the arrears and any charges relating to the arrears.

Mr R doesn't accept that there are arrears on his account. But I'm satisfied that there are arrears and I don't think that in itself is unfair. The loan agreement requires repayments to be made every month, so that the loan can be concluded within the agreed term. Although I don't think NatWest explained the situation clearly to Mr R, I'm satisfied that nothing was said about the loan term being extended. So it follows that each month a payment wasn't made, arrears built up further.

I understand the reason why Mr R hasn't made the monthly payments. But that didn't mean they weren't falling due. It was just that NatWest wasn't chasing him for payment. And Mr R knew at the time of the conversations that there were already some arrears on the account, due to the mistake with the Direct Debit. So, unless the account is brought up to date, it will remain in arrears. I'm going to ask NatWest to remove the interest on the arrears. So the amount overdue will be no more than what Mr R would have paid if he'd been making the contractual monthly repayments since 2021.

I think NatWest should refund all the arrears interest and any charges applied to the loan account from February 2021 onwards. And it should ask the Credit Reference Agencies to remove any adverse data reported on the loan from February 2021 onwards. This should not be conditional upon Mr R recommencing loan repayments, because I think the interest and credit file impact are attributable to NatWest's mistakes as outlined above.

But if the account remains in arrears after the existing data is amended and existing arrears interest has been removed, all new credit file entries will report that there are arrears because that is the factual position and Mr R is now fully aware of the situation. It's possible that interest could also be applied to any arrears which remain outstanding going forward. So, if Mr R wants to ensure that there is no adverse reporting of the loan and no arrears interest going forward, he will need to re-start the repayments now and come to an arrangement with NatWest about the arrears.

Turning to the amount of compensation, Mr R says the situation has caused him distress, upset and humiliation as well as having an impact on his business. I realise he feels very strongly about the complaint and I'm sorry to disappoint him. But I don't think compensation above £300 is warranted here. I haven't seen evidence of any specific detriment he has suffered because of entries on his credit file. So I think any negative impact will be largely rectified by the adverse entries being removed. I'm also mindful that Mr R has some responsibility to try and mitigate any losses he may have suffered and I haven't seen any evidence of that. I think a compensation payment of £300 would be fair here, to reflect the mistakes NatWest made.

As I said in my provisional decision, I don't find that NatWest made any mistake by withdrawing Mr R's access to its online banking facility and I don't think it's unreasonable that the facility is no longer available to Mr R. So I'm not going to ask NatWest to do anything about that.

NatWest offered to create a new loan. I'm not going to direct it to do that and, in any event, Mr R didn't agree to that proposal. But I think it was a fair suggestion on the part of NatWest and a practical way of dealing with the arrears on the account. If Mr R wishes to pursue the offer of a new loan, to coincide with the existing arrears interest being removed and the adverse entries being removed from his credit file, he should liaise with NatWest and I would urge both parties to try and reach agreement around this issue so that the account can be brought back on track. I would encourage Mr R to contact NatWest about the arrears in any event.

My final decision

For the reasons above, I uphold this complaint. National Westminster Bank Plc should:

- pay Mr R compensation of £300;
- refund all arrears interest and any charges applied to the loan account from February 2021 onwards; and
- ask the Credit Reference Agencies to remove any adverse data reported about the loan account from February 2021 onwards.

Under the rules of the Financial Ombudsman Service, I'm required to ask C to accept or reject my decision before 26 August 2022.

Katy Kidd
Ombudsman