

The complaint

Miss R is unhappy that Lloyds Bank PLC cancelled an arrears repayment plan to which she'd agreed and then later defaulted her account.

What happened

Miss R had a personal loan with Lloyds, the terms of which included monthly repayments of £296.34 for 20 months, from August 2020 to April 2022.

In November 2021, with seven monthly payments still outstanding, Miss R explained to Lloyds that she was experiencing financial difficulty and was struggling to pay the loan instalments. Lloyds agreed that Miss R wouldn't need to make any payments towards the loan for three months. Miss R didn't make the next three loan payments as agreed, but she then noticed that Lloyds had reported these as missed payments to her credit file. Miss R wasn't happy about this, so she raised a complaint.

Lloyds looked at Miss R's complaint. They felt it had been explained to Miss R when she'd accepted the three month plan that her credit file would be affected, and they noted that this had been confirmed in the letter sent to Miss R which confirmed that the payment plan had been put in place. However, Lloyds did agree that the three payments that Miss R hadn't made would be added to the end of the loan, extending the loan term so that the last instalment would now be in July 2022.

Miss R spoke with Lloyds again shortly afterwards because the three-month payment plan had come to an end and because she still couldn't afford to pay the instalments that had again become due. The Lloyds agent that Miss R spoke with discussed Miss R's financial position with her and agreed to allow Miss R to pay the remaining £2,048.28 that was due on the loan over a period of twelve months at £170.69 per month. Lloyds then sent a letter to Miss R confirming this agreement.

However, when the first instalment of £170.69 was due, Lloyds took a direct debit payment of £296.34. Miss R contacted Lloyds about this, who reimbursed the overtaken amount of £125.65 to Miss R, but who then explained that they weren't able to honour the payment arrangement agreed by their agent with whom Miss R had spoken. Lloyds also confirmed that because Miss R couldn't afford to make the contractual payments of £296.34 per month that were due on the loan, the only option they had was to default her account – which Lloyds subsequently did. Miss R wasn't happy about this, so she raised another complaint.

Lloyds looked at Miss R's second complaint. They explained that the 12-month reduced payment plan should never have been set up because Lloyds weren't able to set repayment plans that go past the end date of a loan agreement. Lloyds apologised to Ms R for this and offered to make a payment of £100 to her by way of compensation. Miss R wasn't satisfied with Lloyds response, so she referred her complaint to this service.

One of our investigators looked at this complaint. They felt that Lloyds position that Miss R wasn't able to meet the contractual repayment terms of the loan was reasonable, but that Lloyds should backdate the default date of the loan to May 2022, when the default should

reasonably first have been applied, so that the default wouldn't remain on Miss R's credit file for longer than was fair. Our investigator also recommended that Lloyds should increase the amount of compensation payable to Miss R at that time to £200, although that was inclusive of a payment of £25 that Miss R had already received from Lloyds.

Miss R didn't agree with the view of this complaint put forwards by our investigator, and so the matter was escalated to an ombudsman for 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.

Lloyds have explained that the three-month extension of the loan term that they agreed to following Miss R's first complaint was a one-off form of assistance agreed by a complaint manager that wouldn't usually be available because it involved extending the agreed term of the loan, which Lloyds were generally unwilling to do.

The twelve-month payment plan that Lloyds later agreed to with Miss R meant that the term of the loan would need to be extended again, and it was Lloyds reluctance to do this that led to them not honouring that agreement.

When Lloyds responded to Miss R's first complaint, they explained that they were unwilling to remove the missed payment markers from Miss R's credit file, but that in order to avoid Miss R having a large sum in arrears that required immediate repayment, they were willing to extend the term of the loan by three months.

This seems reasonable to me, and I say this because Lloyds, like all credit providers, have an obligation to make accurate reports to the credit reference agencies about how a customer has repaid a loan, including if that customer isn't able to meet the contractual repayments of a loan and requires a payment plan to be put in place.

This means that if a loan account holder experiences a change of financial circumstances such that they can't meet the monthly payments due on a loan, then while a credit provider can agree not to chase that account holder to make payments for an agreed time, they still have an obligation to make accurate credit file reports, if that account holder doesn't, for whatever reason, make the monthly payments that are contractually required on the loan.

Notably, the letter sent by Lloyds to Miss R dated 2 November 2021 which confirmed the agreed payment plan explained this point, and advised that while Miss R wasn't required to make payments for the next three months, if she didn't make those payments the account would still be considered as having fallen into arrears and would still be reported to the credit reference agencies as such.

Accordingly, I don't feel that Lloyds did act unfairly towards Miss R by reporting the three payments that Miss R didn't make during the payment plan period as being missed, and I also feel that Lloyds did act fairly towards Miss R by agreeing to add the three missed payments to the end of the loan – extending the loan term by three months – rather than considering the combined amount of the three payments as being the amount which Miss R's loan account was in arrears, and then chasing Miss R for the repayment of that amount.

All of which meant that, when the three-month period during which Lloyds weren't expecting payment from Miss R came to an end, the contractual repayments that remained outstanding on the loan – seven monthly payments of £296.34 – became due again. But Miss R remained unable to make these payments, and so she contacted Lloyds.

What should have happened at this time is that it should have been recognised by Lloyds that Miss R, having already received some financial assistance, wasn't reasonably able to meet the terms of the loan agreement such that it should have been explained to Miss R that if she wasn't able to meet the instalments required on the loan that the loan would fall into arrears and may ultimately default.

However, what did happen was that the Lloyds agent that Miss R spoke with agreed to a new payment plan where Miss R would be allowed to repay the outstanding balance of the loan over twelve instalments at a reduced amount, which would have meant extending the term of the loan again by a further five months.

Lloyds have explained that this was a mistake by their agent, who should never have agreed to the twelve month plan, and that Lloyds weren't willing to extend the term of the loan agreement once again, having only done so previously as an exception.

I've therefore asked myself whether Lloyds should fairly be instructed to honour the terms of twelve-month payment plan that their agent mistakenly agreed to. But, upon consideration, I don't feel that it would be fair to instruct Lloyds to do this.

One of the reasons for this is because the loan agreement dictates the contractual terms of the loan, including the term. And, as alluded to earlier, if a loan account holder can't meet the terms of the loan agreement, including repaying the loan within the agreed term – which Miss R was unfortunately unable to do in this instance – then I feel it's fair that that loan should be considered to have defaulted. And this is generally regardless of any reason why the loan account holder hasn't been able to make the required payments.

And while Lloyds did make a mistake in regard to their agent incorrectly informing Miss R that they would accept a twelve month reduced payment plan when in fact that wasn't the case, I don't feel that Lloyds should fairly be instructed to honour that mistake, which in effect would allow Miss R to not meet the contractual repayment terms of the loan without incurring the consequences that all other similar loan holders would incur under the same circumstances.

Ultimately, Miss R didn't repay the loan in line with the terms of the loan agreement, and while I can appreciate that her change of circumstances contributed to this, I feel it's only fair that her account should be considered as having defaulted because of that non-payment. And so, I won't be instructing Lloyds to remove the default from Miss R's credit file here as she would like.

However, I do feel it's important that the date of the default be recorded accurately, in line with when Miss R's account should first reasonably have been defaulted, so that the default doesn't remain on Miss R's credit file for any longer than should fairly be the case. And for that reason I concur with our investigator's instruction to Lloyds to backdate the default date to May 2022, which – following the three missed payments from the first payment plan, and the subsequent missed payments following the end of the plan – is when I feel the default should reasonably first have been applied.

I also feel that, while Lloyds shouldn't be instructed to remove the default from Miss R's account for the reasons explained above, they should be instructed to pay compensation to Miss R for the trouble and upset that she's incurred here as a result of her being given incorrect information by their agent about the viability of the twelve month payment plan.

Matters of compensation can be subjective, with an offer considered as being fair and reasonable by one party not being considered as being such by someone else. However, the further compensation payment of £175 as recommended by our investigator and accepted

by Lloyds does feel fair to me here, given the full circumstances of this complaint, and I can confirm it's commensurate with what I would have instructed Lloyds to have paid, had our investigator not already done so.

Finally, I note that Miss R has advised that if Lloyds had told her that they wouldn't be willing to accept the twelve month payment plan, that she would have been able to borrow money from her family to make the payments necessary to avoid her account defaulting. I can appreciate Miss R's position here, to a degree. But it's notable that Miss R wasn't able to make the payments needed to avoid the account defaulting after she was told by Lloyds that the previously agreed twelve month payment plan was no longer valid but before the account was defaulted, and so I don't feel that it can be reasonably demonstrated that Miss R would have been able to borrow the money from her family as she contends.

I realise that this won't be the outcome that Miss R was wanting, but it follows that while I'll be upholding this complaint in her favour, I'll only be doing so on the limited basis as described. I hope that Miss R will understand, given what I've explained, why I've made the final decision that I have.

Putting things right

Lloyds must make a further payment of £175 to Miss R.

Lloyds must also backdate the date of default from August 2022 to May 2022.

My final decision

My final decision is that I uphold this complaint against Lloyds Bank PLC on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 12 December 2022.

Paul Cooper
Ombudsman