

The complaint

Miss M has complained about Erudio Student Loans Limited defaulting her student loan account and not granting an age-related cancellation.

What happened

In 2014, Miss M was no longer able to defer her student loan account, but she also couldn't afford the minimum repayments. She made reduced payments through a debt management company, which Erudio accepted at first, and she kept up with the arrangement.

In 2018, Erudio sent Miss M a default notice, and when she didn't clear the arrears in full they defaulted the account.

In 2022, Miss M complained. She argued that Erudio should not have accepted payments for four years only to default her, and she felt her loan should still be cancelled once she'd reached the appropriate age.

Our investigator looked into things independently and partly upheld the complaint. They found that Erudio were entitled to default the account, and this meant that the loan could no longer be cancelled. But they found that Erudio had waited too long to register the default, so they proposed that it should be backdated, and that any subsequent interest or charges should be removed.

Erudio didn't agree. They felt that the default date wasn't something our service could consider as they felt it wasn't part of Miss M's original complaint. So the case has been passed to me to decide.

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 can see that Miss M expressed her dissatisfaction with the default in her original complaint. And its date falls within our inquisitorial remit. So I will consider the default date here.

Back in 2014, Erudio knew that Miss M was in a debt management plan because of financial difficulties. And this was a very long-term arrangement, so they knew her situation was unlikely to significantly change – which it did not.

As Miss M was making reduced payments, she was falling further into arrears each month. And I would have expected Erudio to default her once she was in 3 to 6 months' worth of arrears. Further, I can't see that there was any significant change in Miss M's situation between 2014 and 2018. So it doesn't seem fair for Erudio to have waited all the way until 2018 to default her. This ultimately left her in a worse position than if she'd just ignored the account instead of working constructively with Erudio. If Erudio wanted to default Miss M, they should have done it once she was 6 months behind at the latest.

It also sounds like Erudio might have been charging interest in the meantime, which they would not have been able to do once the account was defaulted. So I agree with our investigator that any interest or charges added in the meantime must be removed.

Miss M argued that Erudio couldn't default her since she was in a payment arrangement. But even with a payment plan, if one isn't making one's contractual minimum payments, then the financial business can still default the account – since it's still falling further and further into arrears each month. And that's what happened here. I note Miss M's comments about the wording on Erudio's website, but that's just a guide for customers on how they tend to deal with accounts. It's not a binding guarantee that they'll never default a customer who's in a payment arrangement. Broadly speaking, companies are able to default customers who've been paying less than the minimum each month, and it's not unusual to do so.

Miss M also argued that Erudio didn't follow the procedure for default and termination notices properly, and I understand why she thought to raise this. But I can't see that this would've made a difference, since even if Miss M had been given some more days before the account defaulted, she's said herself that she couldn't clear all the arrears and return the account to its contractual payments. So it still would have defaulted anyway.

Lastly, I can certainly appreciate why Miss M would like her account to be cancelled, and why it is so disappointing for her that it won't be cancelled. She does have my sympathy there. But even if Erudio had never defaulted this account, it still would not be able to be cancelled now. That's because it can't be cancelled if the customer is in arrears. And Miss M is in substantial arrears, since she's been paying less than the minimum payment for years, and she confirmed she's not been in a position to pay all that off. More importantly, the account can no longer be cancelled once it's defaulted. But the account did default here, and that default was fair – even if it should have been done at a much earlier point.

So in this particular case, I can't fairly tell Erudio to cancel the account as a whole. But like our investigator, I do find that they need to backdate the default.

Putting things right

I direct Erudio Student Loans Limited to:

- Backdate the default to six months after Miss M entered the account into her debt management plan; and-
- Reconstruct the account to remove any interest or charges that were added since that point.

My final decision

For the reasons I've explained, I uphold Miss M's complaint in part, and direct Erudio Student Loans Limited to put things right in the way I set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 16 November 2022.

Adam Charles
Ombudsman