

## **The complaint**

Ms H complains that Santander UK Plc has added interest and charges onto her loan that it should not have done.

## **What happened**

Ms H took out a loan with Santander in 2008, which then defaulted in early 2011. Ms H brought a complaint against Santander to our service soon after about financial difficulties, which was upheld. The ombudsman directed Santander to remove any unearned interest from the defaulted amount, which they suggested was £5,042.83.

Ms H has provided a statement from 2012 which she says shows that soon after the decision from our service, Santander added £5,952.60 of interest back onto the loan account. She says that her debt management company who has been assisting her says her remaining balance is around £6,000 less than what Santander has said is remaining. Because of this, she thinks the figures Santander has provided is incorrect. However, Santander confirmed that the outstanding balance it provided was correct and it had made no error. The complaint was referred to our service.

Our Investigator looked into the complaint and pushed Santander for a more in-depth explanation of the figures. They explained that the full value of outstanding unearned interest at the time of the default was £5,959.60, not £5,042.83, and that is why the figure appeared on the statements Ms H produced. But this was them highlighting the gross balance compared to the net balance and showing the unearned interest but was not them adding any interest onto the overall balance. They also confirmed that Ms H's debt management company has the net balance and not the gross balance information.

They said that they had removed the £5,042.83 from the balance of the loan as requested by the ombudsman. But they were unable to specifically take this from the gross balance, and instead this was deducted as if it were a normal payment. This means the net balance has remained lower than the gross balance which has caused some confusion. The Investigator agreed that looking at the figures, the outstanding balance suggested by Santander was correct.

Santander noted that the difference between the actual unearned interest at the time the account defaulted was £5,959.60, not £5,042.83. Because of this, they offered to deduct the difference between these two figures from the loan balance, totalling £909.77. The Investigator felt this was a fair outcome.

Ms H disagreed with this. She still felt the gross balance of the loan was incorrect and that Santander had added interest onto the loan which it should not have done. Part of her reasoning was that if there was £5,969.60 of unearned interest left when the account defaulted, this meant around half of the interest she was expected to pay on the loan had accrued in the first few years, which she didn't feel was correct.

As an informal agreement could not be reached, the complaint has been passed to me 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.

Having done so, I agree with the Investigator for largely the same reasons, and I think that the gross balance Santander has highlighted is correct. I've seen no evidence they have added any interest back onto the loan and I agree that their offer to deduct £909.77 from the loan balance is fair in the circumstances. I'll explain why in more detail.

Firstly, I want to explain that I won't be going into the fine detail of the figures as these have already been gone over in detail by the Investigator and I'm aware that further payments will have been made since that time, so the figures may not be up to date.

I've carefully looked over all of the transactions on the account, taking into account the opening balance of £17,756 and that the total that was due to be borrowed including interest was £26,688. Having done so, based on what Ms H has paid so far, I'm satisfied that the gross balance Santander quoted in the notice of sums in arrears dated July 2022 was correct. And I'm satisfied this includes the loan deduction of £5,042.83 in 2012.

I've looked at the statement Ms H provided which she thinks shows Santander added interest to the loan. This shows the unearned interest being deducted from the net balance of the loan. It then shows that the net balance on 12 January 2013 was £10,682.22. The gross balance on 12 January 2013 was £16,634.82. The difference between these two was £5,952.60 which was the unearned interest on the account. Santander has explained that when it deducted the £5042.83 on 13 November 2012, ideally it should have been removed specifically from the unearned interest, and therefore the gross balance. But due to the way its systems work, it was only able to deduct it as a regular payment, which is reflected on the statement. Looking at this, I'm satisfied that it does not show that Santander added interest back onto the loan when it should not have done.

I think the confusion has partially stemmed from the way in which the interest was deducted from the balance of the loan in 2012, and also from a misunderstanding about how interest is applied to loans. Essentially, Ms H's loan repayments were the same every month because of how the interest was calculated. At the start of the loan term, her repayments included more interest but less of the loan balance. Towards the end of the loan term, the repayments would have included less interest but more of the loan balance. Because of this, Ms H paid more interest in the first few years prior to the account being defaulted, and this is why there was not as much unearned interest at the default date as she was expecting. So, I don't agree that the figures provided by Santander are incorrect, and I'm satisfied that the remaining balance they have quoted is right.

Santander has offered to reduce the outstanding balance by £909.77, which is the difference between what was recommended by the previous ombudsman and the unearned interest they say was remaining on the account at default. I won't be passing comment on the fairness of a decision that has already been accepted by Ms H or the merits of it at all. Santander's offer does not sound unreasonable and it should apply this to Ms H's loan balance if she accepts it.

### **My final decision**

I do not think Santander UK Plc has made an error in relation to the outstanding loan

balance. Ms H is now able to accept the offer to reduce the outstanding loan balance by £909.77.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 11 April 2023.

Rebecca Norris  
**Ombudsman**