

The complaint

Mr N is complaining that Sainsbury's Bank Plc incorrectly reported a default on his personal loan.

What happened

Mr N had a personal loan with Sainsbury's Bank. After a payment holiday during 2020 he missed a number of payments, and the account was defaulted in May 2021.

In August 2023, Sainsbury's Bank removed the default from Mr N's account in error. This meant he was charged some interest when he shouldn't have been. It also meant Sainsbury's Bank sent him a letter telling him he needed to pay the full balance on the loan immediately. And it resulted in incorrect information being reported to the credit reference agencies (CRAs). Sainsbury's Bank resolved the issue in September 2023, refunding the interest and reinstating the default.

Mr N complained to Sainsbury's Bank shortly afterwards. He said he hadn't received a Notice of Default before the account was first defaulted and said it had been sent to the wrong address. He said the default was applied to his account incorrectly and has caused him great upset as he'd had to stop his application for a mortgage because of the default.

In response, Sainsbury's Bank explained that the error had meant Mr N's credit file was temporarily showing the wrong date for the default. They said they were in the process of getting this resolved to show the correct default date. They apologised for the error and offered Mr N £50 to compensate him for the upset it had caused.

Mr N remained unhappy so brought his complaint to our service. It became clear that he was mostly upset that his account had been defaulted at all. He said he'd particularly suffered during the pandemic due to an existing health condition, and he'd had to work despite this to try to continue to make payments to Sainsbury's Bank. He was upset that they'd defaulted his account even though he'd come to an arrangement to make reduced payments with them. He said the default had likely meant his car finance was more expensive than it otherwise would have been. And he'd not been able to apply for a mortgage – noting this meant he would miss out on the interest rates and house prices available at the time.

One of our investigators looked into Mr N's complaint and partially upheld it. She thought Sainsbury's Bank should pay Mr N an additional £100 in compensation for the problems caused by their error. But, she said, Sainsbury's Bank had acted fairly in defaulting Mr N's account.

Sainsbury's Bank reluctantly accepted our investigator's view in the interests of settling the complaint, saying they thought the £50 they'd initially offered Mr N went far enough. Mr N accepted the amount of compensation our investigator recommended, but wanted the default removed from his credit file.

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, and acknowledging it's likely to be disappointing for both parties, I've reached the same conclusion as our investigator. I'll explain why below.

The essence of Mr N's complaint is that Sainsbury's Bank shouldn't have defaulted his account and did so without following due process.

I've looked at the payment history for Mr N's account and can see that that he took out the loan in March 2018 and made his monthly payments in full and on time for the first 24 months. He then didn't make any payments in the four months from April to July 2020. Mr N made his August and September 2020 payments in full and on time but made no payments in October or November 2020. In December 2020, Mr N came to an arrangement with Sainsbury's Bank to pay £100 per month. He did this for three months – December 2020 to February 2021 – but didn't make a payment in March 2021. He made a further payment of £100 in early April 2021.

Sainsbury's Bank sent letters to Mr N relating to his payment holiday as follows:

- April 2020 – offering a payment freeze of three months for May to July
- May 2020 – offering to backdate the payment freeze to take into account the payment Mr N had already missed in April 2020
- July 2020 – saying he would need to start his payments again the following month.

These letters made it clear that the account would not be showing as in arrears and instead, the term of the loan would be extended. So Mr N's account wouldn't have reported any arrears before October 2020.

Sainsbury's Bank also allowed Mr N a 30-day hold in November 2020, but this letter made it clear that arrears would start to build up. Arrears also built up during the three-month period for which Mr N and Sainsbury's Bank agreed that Mr N would pay £100 per month.

Sainsbury's Bank wrote to Mr N at the end of the three months, setting out his arrears. This letter also said that the bank might have to issue a Notice of Default if Mr N didn't go back to making his required monthly repayments or get in touch with them.

Sainsbury's Bank wrote to Mr N again on 22 March 2021 saying his arrears were now over £1,700, and that they would issue a Notice of Default if they didn't hear from Mr N within 30 days. The Notice of Default was sent on 4 April 2021 and was followed by the default letter on 3 May 2021.

Mr N doesn't believe the account should have been defaulted. The Information Commissioner's Office (ICO) sets out guidance for when a default should be registered. This says it should generally be when a customer is at least three months in arrears.

Mr N's normal monthly payments under the agreement were supposed to be around £330. By March 2021, his arrears were £1,700 – representing around five months' worth of payments. So I can't say it was unreasonable for Sainsbury's Bank to register a default when they did. And they stopped charging interest or fees at this point because they recognised that Mr N was having difficulties making the payments. So I'm satisfied they treated him fairly in this respect.

Part of Mr N's complaint is that Sainsbury's Bank sent letters to the wrong address. He gave his address history to the bank as part of the complaint process, and I can see they were

sending letters in early 2021 to an address he'd left at the end of 2019. However, I haven't seen any evidence that Mr N told Sainsbury's Bank he'd moved house until May 2021 – which was after the default occurred. So I can't say Sainsbury's Bank did the wrong thing here – they sent the letters to the address they held for Mr N at the time.

So, I'm not persuaded Sainsbury's Bank acted unfairly or unreasonably in defaulting Mr N's account. However, they did make an error in August 2023, and I'll go on to consider the impact that had on Mr N.

Putting things right

Sainsbury's Bank offered Mr N £50 to compensate him for their error in August 2023 and our investigator said £150 was more appropriate. In determining what's fair and reasonable, I have to think about the impact of the bank's errors on Mr N. I appreciate he's upset that he can't get a mortgage. But I'm not persuaded this is as a result of the August 2023 error so I can't factor this in when considering the amount of compensation.

However, Mr N was looking for finance for a car in the autumn of 2023 and the timing means it's quite likely the first credit search would have been run during the time the default wasn't registered, with the later credit search including the default. So, whilst the default isn't incorrect, the temporary removal of the default seems to have given Mr N an expectation that his car finance would be cheaper than it turned out to be.

On top of this, Sainsbury's Bank's letter of 31 August 2023 demanded payment in full within four weeks of the approximately £6,750 he still owed. I can appreciate how much stress this must have caused Mr N. It's also clear that the error and its correction has led to Mr N having more awareness of the default and has led to an increase in stress for him – he raised his complaint shortly after he was told about the issue.

On balance I'm satisfied £150 is fair and reasonable compensation for the stress and upset that the August 2023 error caused Mr N.

My final decision

As I've explained above, I'm upholding Mr N's complaint. Sainsbury's Bank Plc need to pay Mr N £150 to settle the matter. For the avoidance of doubt, I'm not directing them to remove the default from Mr N's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 9 October 2024.

Clare King
Ombudsman