

## The complaint

Mr V's complaint is that Lloyds Bank PLC incorrectly reported a default on his credit file leading to him suffering financial detriment when obtaining credit. Mr V has said this has caused him significant distress and inconvenience.

Mr V also complained about Lloyds' decision to reduce his credit card limit.

## What happened

Lloyds defaulted Mr V's personal loan in around July 2021 and reported this status to credit reference agencies.

Mr V complained to Lloyds about the default and it didn't uphold his case. Mr V brought that complaint to our Service in 2021 and our Investigator concluded Lloyds hadn't acted unreasonably. The case was resolved in early 2022.

In September 2023 Lloyds wrote to Mr V setting out that after reviewing his loan it identified it had been defaulted in error. Lloyds said it had already contacted credit reference agencies to update how the loan was reported, and that it had made the decision to write off the outstanding loan balance which it said was around £8,500.

Mr V complained to Lloyds saying he'd obtained new credit products while the default had been reported on his credit file, and he said these would have been provided on less favourable terms.

Lloyds issued its final response letter in November 2023 paying Mr V £400 for the distress and inconvenience of the situation. It also said it would review any information Mr V could provide to evidence the financial losses he said he'd incurred, so it could review whether further financial compensation would be warranted.

Mr V referred this complaint to our Service as he was unhappy with Lloyds' outcome.

Our Investigator reviewed all of the evidence and upheld the complaint. She said Lloyds needed to compensate Mr V for the higher level of interest he'd paid on the credit products he'd obtained while the default had been reported on his credit file. After reviewing additional information Mr V had presented, Lloyds offered to pay Mr V a further £2,377.78. It said it calculated this to have been the additional interest Mr V may have paid on the credit products he'd obtained while the default was reported on his credit file.

Mr V declined Lloyds' offer and said he was looking for compensation in the high thousands.

As an agreement couldn't be reached the complaint was referred to me to decide.

I recently issued a provisional decision where I set out, with reasons, my initial thoughts on this case and what I was intending to decide.

The below is an extract from my provisional decision:

"The reporting of the default on Mr V's credit file

*There is no dispute that Lloyds incorrectly reported Mr V's loan in default to credit reference agencies; it was Lloyds that identified this error and made Mr V aware of it. But what is in dispute is how this error should be fairly resolved; both from a financial and non-financial point of view.*

*Mr V has said the credit products he obtained while the default was on his credit file will have been on less favourable terms.*

*Lloyds made Mr V aware of its error in September 2023; and within its letter it confirmed it had already updated the records held with credit reference agencies, and that it took the decision to write-off the remaining loan balance of around £8,500. In its final response to Mr V's complaint in November 2023, it said it would review any further evidence Mr V could provide to support the financial loss he says he's incurred. In response to our Investigator's latest assessment Lloyds has offered to compensate Mr V with a further £2,377.78, which it feels is a reasonable amount for the difference in interest Mr V may have incurred.*

*Mr V hasn't been able to provide us with copies of his credit report from around the time Lloyds incorrectly reported the default, or around the time he obtained new credit when the default was being reported. However, Mr V has been able to provide us with a recent full credit report as part of his submissions to this Service.*

*Lloyds has said the information Mr V has presented to evidence his financial losses is inconclusive. It says this because it notes Mr V's credit file had other adverse information reporting at the time. And there is no evidence to show the interest rates Mr V's credit products attracted would have been lower, was it not solely for it reporting the default.*

*I've reviewed Mr V's recent credit report, and taking into account all of the evidence available to me, I can't safely conclude the default would have been the sole reason Mr V may have received less favourable rates of interest on the credit products he obtained.*

*I say this because it's clear from Mr V's credit report that there was other adverse information being reported at the time he applied for the credit products in 2022 and 2023.*

*There are several credit card and charge card accounts reporting arrears between late 2017 and early 2019. And in two instances the arrears were relatively constant, with two of the accounts having been reported in arrears in seven and nine months across a 12-month period between these dates.*

*In addition, Lloyds has said the credit card and loan Mr V held with it was in arrears before it incorrectly defaulted the loan. Mr V disputes that his credit card was in arrears. But it was his loan being in arrears that started the process that led to Lloyds defaulting (albeit incorrectly) the account. So, at the least there would have been arrears reported on Mr V's credit file in 2021 in relation to his Lloyds loan that would have been available for lenders to have taken into account.*

*Part of a lender's checks when deciding whether to agree credit includes assessing the risk of repayment. So, I consider, on balance, it more likely than not that multiple adverse entries relating to arrears on a credit file would have been looked at negatively by lenders, and as such would have impacted decisions to lend, or at least the terms of any lending.*

*It therefore follows I can't safely conclude it was solely Lloyds' reporting of the default that impacted Mr V's ability to obtain credit at what he considers to be less favourable terms, including the level of interest applicable to each agreement.*

*I've already set out above that Lloyds has offered to refund Mr V a further £2,377.78 in recognition of what it considers a reasonable reflection of the difference in interest Mr V has incurred as part of its error. I currently consider this offer to be fair and reasonable in the circumstances; so, I'm not currently minded to say Lloyds needs to offer further compensation for the financial loss Mr V says he's incurred.*

*I note that as part of its redress Lloyds has written off Mr V's outstanding loan balance of around £8,500. This balance was still owed by Mr V. So, this means Mr V has also had the benefit of not having to repay the total outstanding loan balance of around £8,500, which was always contractually due.*

#### *Compensation for the distress and inconvenience caused*

*Lloyds has paid Mr V £400 in recognition of the distress and inconvenience its error has caused him. Mr V has said he's looking for compensation in the high thousands.*

*Our guidance on compensation for non-financial loss is publicised on our website. Generally, an award in the high thousands would be recommended where a business' error has caused sustained distress and/or inconvenience; and/or severe disruption to someone's daily life, lasting more than a year. Examples include when the effects of the error have irreversible consequences, or a lasting impact on someone's health.*

*Mr V has told us he has suffered significantly with his health since learning of Lloyds' error; and that the ongoing situation of this complaint has only further worsened this. I've very carefully considered Mr V's testimony here, and don't doubt how he says Lloyds' error has impacted him. I can understand that it would have been concerning to have learned of its error some years after the event; and that the ongoing complaint process is causing him further distress and inconvenience.*

*But I must also take into account that Mr V was seemingly unaware of Lloyds's error until it contacted him in September 2023, around two years after the event. And when it contacted him, it set out the remedial action it had already taken. Mr V did raise concerns with Lloyds' on receipt of the letter as he is entitled to, and it issued him with its final response in November 2023, around two months after his complaint was made, in line with its regulatory obligations. It set out that it felt a payment of £400 for the distress and inconvenience of the situation was warranted, and that it would reasonably consider any evidence he presented of financial losses because of its error, with a view to increasing its financial compensation.*

*I'm in no way looking to downplay the impact Mr V has said Lloyds' error has had on him. But taking into account when Mr V became aware of the error, the steps Lloyds had already taken to mitigate any further detrimental impact, and that it answered his complaint within the regulatory timescales; I currently consider its payment of £400 is in line with our Service's guidelines on distress and inconvenience awards in this situation.*

*I say this because once Mr V became aware of the error remedial action had already been taken. And while Lloyds considered a compensatory payment for the distress and inconvenience, it did so within a reasonable period of time, also inviting Mr V to present further evidence for it to consider of financial loss. So overall, I consider Lloyds took reasonable steps to mitigate the impact on Mr V from both a financial and non-financial point of view, which lasted for a short period of time, and it has reasonably considered the non-financial impact of its error.*

*It therefore follows I'm not currently minded to say Lloyds needs to increase the compensation payment already made.*

#### *The reduction of Mr V's credit card limit*

*It's clear that Mr V was at least in arrears on his loan with Lloyds; the reason Lloyds has agreed the loan shouldn't have been defaulted was because Mr V brought the account back in line by the deadline provided. Lloyds has said Mr V was also in arrears on his credit card; although Mr V has disputed this, and Lloyds hasn't provided documentary evidence to support its account. However, it appears there was a level of financial stress on Mr V's finances, whether solely in relation to maintaining payments to his loan with Lloyds, or other products.*

*It would appear Lloyds' decision to reduce the credit card limit was in response to its overall assessment of Mr V's financial situation at that time, which coincided with it defaulting the loan. But as a responsible lender Lloyds must make decisions to reduce any possible or actual risk to its customers and its business where a potential credit limit may be unsuitable. And I've not currently been provided with any evidence to suggest Lloyds acted unreasonably when reducing Mr V's credit card limit.*

*In any event, it's not for this Service to tell a business who it can or can't lend to, and on what terms. So, I'm not in a position to tell Lloyds to reinstate Mr V's credit limit. It would be up to Lloyds to look to complete an affordability assessment if Mr V was looking to increase his credit card limit in the future.*

*As such, I don't currently consider Lloyds needs to take any further action in relation to this complaint point.*

#### *Summary*

*In conclusion I'm intending to decide that the steps Lloyds has already taken, and has offered to take in response to our Investigator's assessment, are fair and reasonable in resolution of this case.*

*Lloyds has already updated Mr V's credit file to remove the default, it has written off the remaining loan balance of around £8,500, and it has paid Mr V £400 for the distress and inconvenience of its error.*

*As such, I'm currently intending to conclude Lloyds need to pay Mr V £2,377.78 in resolution of this case."*

Lloyds responded saying it agreed with my provisional decision and had nothing further to add. Mr V responded and didn't agree, providing further information for me to consider. In summary he said:

- He'd raised his concerns with Lloyds and our Service in 2021 when the default action was initially taken.
- Lloyds' write off of the remaining balance of the personal loan in September 2023 was around £6,850; not around £8,500 as I had set out.
- Mr V asks whether the payments made to the loan can be added into the final compensation amount.
- Mr V says as his complaint about the loan being defaulted was raised with Lloyds and our Service in 2021 and wasn't upheld, that he has therefore suffered distress

and inconvenience since 2021

### **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've not been presented with any new information or evidence which leads me to conclude I should depart from the findings reached within my recent provisional decision. I appreciate this will be disappointing to Mr V.

I've seen that Mr V did raise his concerns with Lloyds in 2021 when the loan was defaulted and reported to credit reference agencies. I've seen he brought his concerns to our Service and the complaint was resolved in February 2022, by way of an Investigator's assessment. I can't revisit that outcome as part of my decision here; however, I accept Lloyds has now said it shouldn't have defaulted the loan when it did.

While considering Mr V's arguments, I've taken into account that our approach to redress is to look to put a consumer back in the position they would have been in (as far as is reasonably possible) had an error not occurred.

Mr V has questioned the total amount Lloyds wrote off as part of its resolution of his complaint; and has asked whether the payments he continued to make to the loan can be taken into account in the total compensation award.

The evidence Mr V has presented does indicate the figure Lloyds ultimately wrote off was around £6,850; rather than its statement that it was around £8,500. However, although the write off does appear to be lower than I had detailed, it is still a significant amount of money.

Mr V may feel that had he not continued to make payments towards the defaulted loan, or had made payments at a lower value, that Lloyds may have written off the higher balance, and that it should therefore refund these payments.

But as I've set out above, our approach is to look to put a consumer back in the position they would have been in, had it not been for the business' error. And that means Mr V would still have been contractually liable for repayment of the loan. So, it's only fair I take into account the benefit Mr V has received by Lloyds writing off the loan balance of around £6,850, when considering the overall position he should be put back in.

I agree this situation has caused Mr V distress and inconvenience, but I'm still persuaded Lloyds' payment of £400 fairly reflects the impact of the distress and inconvenience caused. I say this because Mr V received an outcome from Lloyds in late 2021 and our Service in early 2022 about the default. I therefore can't reasonably conclude any distress and inconvenience has been caused between that complaint being resolved and Lloyds contacting Mr V in September 2023, where it provided further information and made Mr V aware it had made an error.

I do accept in September 2023 Mr V will have suffered distress and inconvenience because of the information Lloyds presented. However, at the same time Lloyds set out the remedial action it had already taken, and in response to his complaint made the payment of £400 for the distress and inconvenience caused. This action was all taken within a reasonable period of time. So, I still consider the award of £400 to be reasonable in the individual circumstances, for the reasons set out within my provisional decision.

Mr V hasn't presented any further information about Lloyds reducing his credit card limit. But

for completeness, as I set out within my provisional decision, I've not seen anything to suggest Lloyds acted unreasonably when reducing Mr V's credit card limit.

### **Putting things right**

Based on my findings above and within my recent provisional decision, I'm satisfied the overall position Lloyds is now looking to put Mr V in is reasonable in resolution of his complaint.

Lloyds has already updated Mr V's credit file, written off the remaining loan balance of around £6,850, and paid him £400 compensation for the distress and inconvenience caused. So, Lloyds should now pay Mr V £2,377.78 in resolution of his complaint.

### **My final decision**

My final decision is that I'm upholding this complaint and I direct Lloyds Bank PLC to pay Mr V £2,377.78.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 17 July 2024.

Richard Turner  
**Ombudsman**