

The complaint

Mr I complains that Bank of Ireland (UK) Plc unfairly terminated his loan and recorded a default on his credit file.

What happened

The background to this complaint and my initial conclusions were set out in a provisional decision. I said:

Mr I had a loan with Bank of Ireland with monthly repayments of £433.79. In May 2023 Mr I contacted Bank of Ireland and explained that he'd had to reduce his hours at work to care for a family member. Mr I explained he was unable to make full monthly repayments on a temporary basis and went on to cancel his direct debit mandate.

Arrears accrued on the loan and Bank of Ireland sent arrears letters to Mr I who maintained regular contact. On 25 July 2023 Mr I spoke with Bank of Ireland and explained he hoped to be back in full time work by 26 August 2023. The agent Mr I spoke with told him a 30 day hold would be placed on his account to allow time for his increased wages to be paid. Mr I was asked to call back to discuss an arrangement to repay the arrears.

On 26 July 2023 Bank of Ireland issued a default notice that said Mr I needed to make a payment of £1,301.37 to clear the arrears by 14 August 2023 or his account may be defaulted. Mr I called Bank of Ireland on 31 July 2023 as he was concerned that the default letter he'd received wasn't in line with the conversation he'd had on 25 July 2023. Bank of Ireland told Mr I it has to send arrears certain letters and notices.

Mr I called Bank of Ireland back on 29 August 2023 to discuss an arrangement and an income and expenditure assessment was completed. On 4 September 2023 Bank of Ireland wrote to Mr I to say it had terminated the loan agreement which would lead to a default being recorded on his credit file. Mr I quickly called Bank of Ireland to complain. Mr I made two payments totalling £280 in September 2023.

On 24 October 2023 Mr I made a payment of £500. On 26 October 2023 Bank of Ireland sent Mr I a final response which said the loan hadn't defaulted at that time and the credit agreement remained in place. Bank of Ireland advised Mr I it was required to send letters about the arrears on the loan to him. Despite Bank of Ireland's assurances, a default was applied to Mr I's credit file on 30 October 2023.

Mr I made a payment of £494 in November 2023, payments totalling £493.79 in December 2023, £533.79 in January 2024 and £493.79 in February 2024.

Bank of Ireland sent various default notices and termination letters to Mr I in the months that followed and as late as March 2024, despite having already closed his loan.

Bank of Ireland later advised Mr I that it had actually closed his account on 26 October 2023 and applied the default from 30 October 2023 but backdated it to 31 August 2023. Bank of Ireland paid £250 towards the arrears to apologise for the mistake in its final response.

Mr I referred his complaint to this service and said that if Bank of Ireland had been clearer when explaining the process of terminating a loan and recording a default he would've made sure to have reached an acceptable agreement to clear the arrears sooner. An investigator looked at Mr I's case and agreed Bank of Ireland had misled him but thought its decision to apply a default was reasonable based on the level of arrears. Mr I asked to appeal, so his complaint has been passed to me to make a decision.

What I've provisionally 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've reached a different decision to the investigator. I haven't been persuaded that Bank of Ireland treated Mr I fairly on 30 October 2023 when it terminated the loan agreement and took steps to record a default on his credit file. I'll explain why.

Whilst Mr I's loan fell into arrears, he was open and honest with Bank of Ireland throughout. In May 2023 Mr I explained his income was temporarily reduced because he was caring for a sick family member. Mr I remained in regular contact with Bank of Ireland, updating it about his circumstances. When Mr I received a default notice in July 2023 he called Bank of Ireland but was simply told the letter was something it had to send. Mr I called Bank of Ireland again when he received a termination letter and Bank of Ireland was still unable to provide a clear update on the situation with his loan.

Bank of Ireland has argued that as Mr I's loan was in arrears for five months it was terminated in line with its normal approach. But Mr I asked Bank of Ireland about the level of arrears required to trigger the default and was told that a full five missed payments would need to be on file before that step was taken.

Mr I promised to call Bank of Ireland back in August 2023 to update it about his circumstances - which he did. Mr I said he would be able to begin making payments again the next month – which he did paying a total of £280 in September 2023. By 24 October 2023 (six days before Bank of Ireland closed his account at default) Mr I made a payment of £500. That covered Mr I's contractual monthly payment and contributed to wards the arrears. On 26 October 2023, Bank of Ireland's final response letter confirmed Mr I's loan remained open. But despite Bank of Ireland's assurance and resumption of full payments, the loan was closed at default four days later. I think it's fair to say Bank of Ireland's administration of Mr I's loan was confusing and misleading.

That view is somewhat reinforced by the confusing number of default notices and termination letters sent to Mr I. I can see no reason why Bank of Ireland sent so many or why it persisted well past the point it closed the loan. My view is this added to the level of confusion Mr I was experiencing. I would add that I also found the information provided by Bank of Ireland to us in support of this case to be confusing. In its file submission to us, Bank of Ireland said that if an account is five or more months in arrears it's at risk of defaulting. But later in the same email, Bank of Ireland said Mr I's arrears had reached £1,292.53 by 14 August 2023 which led to the default. But that was only three months of arrears (May to August 2023) not five.

My view is that the unreasonable level of misleading information provided by Bank of Ireland made Mr I's situation much harder than it needed to be. Mr I resumed payments, albeit at a reduced level, in September 2023. And Mr I made his full contractual monthly payment plus a contribution towards the arrears on 24 October 2023, four days before the loan was closed at default. None of this seems to have had any impact on the way Bank of Ireland

administered his case or its decision to close his loan. And given I know Mr I made his normal monthly payment plus contributions towards the interest in the months that followed, I find Bank of Ireland's argument he was unable to repay the arrears to be unsound.

I need to decide how to fairly resolve Mr I's complaint. It appears Mr I returned to work full time and his income went back to its normal level. So if Mr I wants the loan to be reinstated I think the fairest approach would be for him to complete an up to date income and expenditure assessment with Bank of Ireland. If that shows he's able to continue making the contractual monthly payment plus repay the arrears in a reasonable time frame, Bank of Ireland should reinstate the loan as if it hadn't been closed on 30 October 2023. If the income and expenditure doesn't show Mr I is able to afford the monthly payments plus arrears, then the loan can remain closed and Bank of Ireland won't be obliged to reinstate it or amend Mr I's credit file.

Mr I should be aware that even if the loan is reinstated and default removed from his credit file, arrears between May 2023 and September 2023 will remain on his credit file.

I understand Bank of Ireland reduced Mr I's arrears £250 for errors in its final response. But I'm not persuaded that fairly reflects the way Mr I's loan has been administered or the level of confusing information given to him. So I also intend to award a further £300 to Mr I in recognition of the distress and inconvenience caused. Mr I can choose whether to receive the £300 directly or use it to reduce the arrears on his loan.

I invited both parties to respond with any additional comments or information they wanted me to consider before I made my final decision. Bank of Ireland responded to say it had nothing further to add.

Mr I responded and said he'd raised sufficient funds to repay most, if not all, the outstanding arrears balance. Mr I explained this showed he'd have been able to settle the arrears last year, before the default was applied to his account. Mr I added that an income and expenditure assessment he'd completed with Bank of Ireland in June 2024 also showed he had the ability to maintain his contractual monthly payment along with contributions towards the arrears. Mr I confirmed he's happy to complete an updated income and expenditure assessment with Bank of Ireland.

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.

Mr I has confirmed he's in a position to clear most if not all the arrears balance of his loan. So on settlement of his complaint, Bank of Ireland should allow Mr I to repay the arrears balance as far as possible using the funds he has available. As noted in my provisional decision, Mr I may also decide to use the £300 compensation for the distress and inconvenience caused to reduce the arrears level as well. If that results in the arrears being cleared in full, Bank of Ireland should reinstate Mr I's loan as if it hadn't been closed on 30 October 2023 and remove the default from his credit file.

If the arrear aren't cleared in full, Bank of Ireland should complete an income and expenditure assessment to verify Mr I can make his contractual monthly payment and also repay the remaining arrears balance in a reasonable time. Once an affordable repayment plan is agreed, Bank of Ireland should reinstate the loan as if it hadn't been closed on 30 October 2023 and remove the default from Mr I's credit file.

As I remain of the view that Mr I's complaint should be upheld, I'm going to proceed in line

with the conclusions reached in my provisional decision.

My final decision

My decision is that I uphold Mr I's complaint and direct Bank of Ireland (UK) Plc to settle as follows:

- Allow Mr I to use his available funds to repay the current arrears balance as far as possible
- If Mr I clears the arrears balance, Bank of Ireland should reinstate his loan as at 30 October 2023 and remove the default from his credit file
- Or, within four weeks of acceptance, arrange for Mr I to complete an income and expenditure assessment for the remaining arrears balance
- If that shows Mr I is able to afford his monthly payment as well as reasonable contributions towards the arrears, Bank of Ireland should reinstate the loan as at 30 October 2023 and remove the default from his credit file
- Pay Mr I £300 for the distress and inconvenience caused

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 5 September 2024.

Marco Manente
Ombudsman