

The complaint

Mr L complains TSB Bank plc ("TSB") applied a default against him for his overdraft. And that it failed to support him in making a payment arrangement for the debt after it had decided to close his account and demanded full payment.

Mr L says TSB's actions caused him and his partner to incur adverse credit filings, the inability to restructure his finances due to adverse credit markers applied by TSB, distress, and inconvenience.

What happened

Following a review, TSB notified Mr L on 27 January 2024 that it had decided to close his account. TSB said that it would do so in two months' time – on 27 March 2024. So TSB said Mr L needed to make alternative banking arrangements and he would need to make provision for incoming and outgoing payments, like direct debits, to be moved to another account.

TSB also explained that if Mr L had an overdraft, he would need to repay it within two months. Within this letter, TSB explained that it understood it wasn't always possible to repay the full amount within two months, and if that is the case with him, he should visit one of its branches to discuss how TSB can help him.

Mr L then arranged to switch his account to a new bank using the Current Account Switch Service (CASS). TSB wrote to Mr L on 2 February 2024 to explain the next steps of the switch saying it was sorry he was moving his account.

Mr L says he then visited a TSB branch to discuss how he could make a payment arrangement for the debt. Mr L says he was told in branch he could still make payment into his account to reduce his overdraft debt.

On 12 February 2024, TSB sent Mr L a letter headed '*Please don't forget to pay off your outstanding balance*'. TSB said he needed to pay off the full balance in 90 days' time and explained how he could do so. It also said if TSB doesn't receive Mr L's payment within the next 30 days' his account will be reported to credit reference agencies.

On 13 February 2024, TSB sent Mr L a letter saying he needed to make a payment as soon as possible to repay his overdraft balance. TSB explained he needed to start making payments as soon as possible and made suggestions as to the methods he could use to do so. A telephone number was provided on the letter for Mr L to call if he was unable to repay what he owed. As Mr L's overdraft was now deemed as an unarranged one, he was informed TSB would report any exceeded overdraft limits to credit reference agencies and that information will stay on their records for six years.

Mr L then called TSB on at least two occasions to discuss his overdraft and discuss making a payment arrangement to pay of his debt. TSB has provided two call recordings related to this that took place on 19 February 2024.

On 23 February 2024, TSB wrote to Mr L again and said he needed to pay off his overdraft balance straight away, and it went onto say how he could do this. TSB once again reiterated that he should call a specific number if he wasn't able to do this, and then it can discuss his circumstances and any options that might be available to him. He was also informed again about what implications not paying off the debt could have on his credit file.

TSB sent Mr L a letter again on 16 March 2024 and said as the overdraft hadn't still been paid off, despite its previous communications, it now needed to be settled. TSB once again explained how Mr L could do this and gave a telephone number to him to call if he couldn't and said it may be prepared to accept reduced monthly payments or other realistic proposals. TSB also reiterated the credit file implications if Mr L didn't make payment.

On 3 April 2024, a default for the overdraft balance was applied by TSB and reported on Mr L's credit reference file.

On 5 April 2024, TSB sent Mr L a letter in which it said as it hadn't been able to contact Mr L to resolve the outstanding balance on his account, his outstanding overdraft balance has been transferred to a collection agency who are authorised to act on its behalf.

Mr L says it was unfair TSB demanded he pay off his overdraft of around £5,000 within 60 days, as he didn't have the means to do so. Mr L says he made several attempts to work with TSB to reach a payment arrangement and why it shouldn't have registered a default against him for the debt.

Unhappy with TSB's actions, Mr L complained. TSB didn't uphold Mr L's complaint. In summary, it made the following key points:

- Its account closure team sent Mr L letters in January 2024 informing him about the closure of his account. And that he needed to arrange to repay his outstanding overdraft balance within two months. TSB's terms of account allow it to close an account by giving notice and it doesn't need to give a reason
- Mr L would need to discuss whether his new bank can provide an overdraft to enable him to repay his outstanding debt with it. All overdrafts are repayable on demand, so when his account closed, TSB would expect the balance to be brought to nil
- If Mr L can't afford to repay the total outstanding debt within 60 days', his account will continue to be managed by its Collections Centre – but the overdraft will be withdrawn.

In line with its normal processes, TSB cannot continue to provide interest free borrowing on a long-term basis. So if Mr L remains unable to afford to repay the debt, TSB would transfer it to its Consumer Debt Recovery (CDR) team. This would involve TSB issuing a variety of legal documents to Mr L, including a Default Notice which would adversely impact his credit file

Mr L referred his complaint to this service. Mr L added that:

- He had visited his local TSB branch multiple times between January and March 2024
- He made a couple of payments towards his overdraft after he had switched to a new bank. But on 19 February 2024 when making a payment towards his overdraft it went straight into his new opened external bank account
- He tried getting an overdraft with his new bank when he switched to pay off his debt

with TSB, but he wasn't given one as his account switch didn't cover overdrafts

- Even after his account was passed to TSB's collections team, it wouldn't make a payment arrangement plan with him. He was able to afford £500 a month at that time

Our Investigator then looked into Mr L's complaint. They recommended his complaint was upheld. In summary, their key findings were:

- TSB gave two months' notice to Mr L to clear the overdraft and if he couldn't to visit a branch. This was in line with its terms of account and is reasonable
- TSB sent Mr L two letters. In one it said he needed to make payment of the overdraft in 90 days. The other said that if he couldn't, he should call a specific TSB telephone number. After listening to this call that took place on 19 February 2024, Mr L explained he was told by branch staff anything he paid to the account would go towards his debt.

Mr L then made a payment but this went into his new external account. TSB's agent explained this was because he had switched his account. Mr L made it clear he wanted to discuss his options but was told no arrangements could be made until the debt moved to the recoveries team. And he should speak to the account switch team about his overdraft who then told him what account and reference details he needed to use to make payment.

There was conflicting information on TSB's letters and on the calls, but it was clear no arrangement could be made until the debt moved to recoveries. And Mr L had up until 12 May 2024 to make payment based on 90 days given on the 12 February 2024 letter he was sent

- So as the overdraft was moved to recoveries on 3 April 2024, and a default recorded, it wasn't applied fairly
- To put things right, TSB should remove the default and compensate Mr L £250 to recognise the inconvenience, stress, and impact caused to him

In response, Mr L said he was happy with what our Investigator said. But he wasn't entirely happy with the compensation amount given what he had gone through. However, the removal of the default is much more important to him.

TSD didn't agree with what our Investigator said. For pragmatism, I will set-out the key points both TSB made, and from our Investigator's responses:

TSB's key points

- As no error has been made, TSB has no grounds in which to remove the default. It is required to report a true reflection of how an account has been managed to credit reference agencies
- Regarding the calls with Mr L on 19 February 2024, TSB is already aware his payment(s) bounced back. But one of the advisor's gave Mr L account details and the reference to use to make payment
- The advisor on that call also offered to put Mr L through to the collections team regarding a repayment plan, but he refused. This call was before the formal demand was sent which supersedes any information given before. Mr L wasn't given any

incorrect information before the formal demand was issued

- TSB explained in its arrears letters that Mr L would need to pay the outstanding balance in full and that there would be an impact to his credit file. This wasn't done so Mr L should take some responsibility. He was provided with the relevant notices
- As letters were sent to Mr L after he spoke to its agents on 19 February 2024, what they said superseded anything he'd been told previously
- As Mr L couldn't make a viable payment arrangement at that time, particularly as he is now paying around £200 with the debt management company, his balance would have ended up being in default in any case

Summary of Investigator responses

- From the call they have listened to, they can understand why Mr L expected the account to go to recoveries before he was able to make any arrangements. SO the third letter wouldn't have made a difference.

Instead, when the debt was moved to TSB's recoveries team, a default was registered straight away. And it isn't true that he didn't make contact attempts

- Mr L called the phone number quoted in the arrears' letters, and they didn't hear anyone explain that if he didn't make a payment using details the Switch team provided before the closure date, a default would be registered.

Had this been made clear, Mr L wouldn't have defaulted

- They disagree it was made clear to Mr L a default would be added once 90 days to make payment was up. The three letters TSB sent after the 19 February call didn't supersede what he was told before because he was told he could make a payment arrangement after the account went into the recoveries team
- As the debt was defaulted before the 90 days to make payment expired, Mr L wasn't given the opportunity to speak to the recoveries team to make a payment arrangement

Mr L later said he felt a much higher compensation award was warranted given the impact to his family. He adds his wife's credit file is also impacted as they were connected through the mortgage.

As there is no agreement, this complaint has been passed to me to decide.

What I've decided – and why

I'm very aware that I've summarised the events in this complaint in far less detail than the parties and I've done so using my own words. No discourtesy is intended by me in taking this approach. Instead, I've focussed on what I think are the key issues here. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

If there's something I've not mentioned, it isn't because I've ignored it. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right

outcome. I do stress however that I've considered everything Mr L and TSB have said before reaching my decision.

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 have decided to uphold this complaint. I'll explain why.

Mr L accepts TSB can close his account in the way it did. So this isn't something I need to consider in my decision.

TSB is under an obligation to communicate clearly and effectively with its customers. I note on one hand Mr L was told he had 60 days to pay off his overdraft but later told in a 12 February 2024 letter that he had 90 days from that point. But Mr L couldn't pay off his overdraft either in 60 days or 90 days', so even if he had relied on this, I don't think it would have made a difference in terms of him paying off the overdraft in full. But it's probable this impacted his thinking in terms of making a viable payment arrangement.

Mr L has provided an itemised screenshot of his calls. And I note he called the telephone number TSB provided on its arrears letters if he was having a problem with making the full payment as was being demanded.

I have listened to the call recordings provided to me by TSB that took place on 19 February 2024 with its agents very carefully. In the first call Mr L explains he went into a TSB branch the previous week to discuss how to make a payment arrangement. And that he was told he could still make payments into his account as it will reduce his overdraft balance.

Mr L then proposed to make a payment over the phone after he had queried what interest and charges had been added to his overdraft. Mr L asks the agent if a payment of £200 would be a good arrangement once his account is closed. TSB's agent said that his department can't make such arrangements with him. But once the account is closed, he can speak to the recoveries department to make one.

The agent later speaks to another TSB department and says that as the account is marked for closure and on the verge of going to the recoveries team, Mr L will need to speak to them to make a payment arrangement. Importantly, the agent Mr L initiated the call with says he is from the *collections* department.

Mr L then attempted to make a payment which was redirected from his TSB account to his new external bank account. He was told this happens on bank transfers due to the account switch he had used to facilitate the opening of his new bank account.

As recommended, Mr L then called TSB's account switching team and said he wanted to make a payment against his overdraft. Mr L is given account details and instructions to use his own sort code and account number as the reference. Mr L is asked if he has set-up a regular payment plan and says he hasn't yet. That agent, on the second call of 19 February 2024, then asks Mr L if they can put him through to the collections team. It isn't entirely clear what Mr L says at that point, but I'm satisfied he does say he'll try another time.

TSB say that Mr L had an opportunity, which he declined at that point, to make an arrangement. But Mr L had spoken to the collections team a short while before on the same day, and they told him he had to wait for the account to close and the balance to be passed to the recoveries team before a payment arrangement could be discussed and arranged.

So, I'm persuaded it was reasonable for Mr L not to want to speak to the collections team

again given he'd already been told a payment arrangement couldn't be made at that stage.

TSB argue that the subsequent three demand of payment letters it sent supersede anything Mr L was told on 19 February 2024. But I don't agree because they all listed the same collections team telephone number – and Mr L was told they couldn't make a payment arrangement with him.

As I've already said, Mr L was given two dates of account closure: one of the 27 March 2024 and the other of 12 May 2024. Mr L wasn't sent any new correspondence after the 16 March 2024 payment demand and arrears letter. In terms of consequences, it doesn't say anything about a default being applied only that if payment isn't made in 12 days' time, the account will be passed to a debt collection agency. And any exceeded overdraft limit will be reported to the Credit Reference Agencies.

Mr L was never given a telephone number for the recoveries team when the account closed. Instead, a default was added on 3 April 2024. A date which is well before the 90 days period TSB said Mr L had to make full payment.

It's quite possible that one of the 60 days' or 90 days' closure notifications were sent in error. After all two separate dates of closure couldn't co-exist in this way. So I think that is a failure to communicate effectively on TSB's part. But more importantly, Mr L wasn't told about a default being added against him from the letters I've seen, and he had reasonable cause to rely on being told he had to wait for the account to close and passed to the recoveries team from the 19 February 2024 call to make a payment arrangement.

I also question why TSB gave Mr L a telephone number to call on three separate letters when its collections teams weren't able to make an arrangement given that was the whole purpose. I say that because a lender -TSB in this case - should treat any consumer in financial difficulty with forbearance and due consideration. This simply means the lender needs to treat them fairly. What is fair will vary for each consumer, it's down to the lender to understand the individual circumstances and take reasonable action

So this service would expect a lender to show appropriate forbearance wherever a consumer is in financial difficulty, whatever the cause of these difficulties. Its clear Mr L couldn't pay off the overdraft on demand. So even though the terms allow TSB to demand payment in this way, when a consumer faces financial difficulty, it should act appropriately to work with them. The fact the TSB's agent was asked by a colleague if they had completed an income and expenditure form shows that this was likely the route that should have been taken at that stage.

TSB may argue that it didn't know Mr L was facing financial difficulty. But TSB had demanded Mr L pay off the whole £5,000 overdraft debt – something he was forced into as TSB had decided to close his account. TSB also knew he owed another large balance on his credit card, and that he was looking to make regular smaller payments. So I think it should have acted differently given it was a reasonable conclusion, based on the above, that he was facing financial difficulty because of its actions.

TSB applied the default very quickly after the account closure. As Mr L wasn't afforded the opportunity to speak to the recoveries team, I'm satisfied TSB didn't act fairly or reasonably here.

So I think the default marker, and any other adverse markers, applied up until the closure of the account date should be removed by TSB. That would be a truer reflection of his standing with credit agencies at that point. TSB should then recall the debt from its agent who are acting for it and speak to Mr L about making a payment plan in line with its processes and

debt collection obligations.

It's important for Mr L to note that entering a payment arrangement for a debt can also adversely impact his credit file. So this is something TSB will need to explain to him if pertinent.

I will now weigh up what I think fair redress is for the distress and inconvenience Mr L says he has suffered. I should add here that Mr L is the eligible complainant here, so I can't make any direction or findings related to what impact he says his wife has ensured because of what's happened due to her being a joint party to their mortgage.

Mr L has alluded to this mortgage being affected adversely as he couldn't rearrange a cheaper mortgage product. I haven't seen any evidence of this, nor can I see that it was with TSB.

Mr L will have a copy of this decision to show his default was added wrongly by TSB. This may help him restructure finances with existing lenders who may have previously declined to do so.

Given the calls and visits to branch Mr L had to make, and the distress of knowing his credit file had been adversely affected, I'm satisfied £250 is fair compensation. Mr L says compensation should run into the thousands. But he will be able to get what has been causing him the most worry resolved once the default is removed, and I haven't seen compelling evidence of severe impact which may have made me award more compensation.

Putting things right

To put things right, TSB must:

- Remove the default marker and any other adverse markers with Credit Reference Agencies applied after the account was closed
- Recall the collection management of the account from its agent and arrange to speak to Mr L in line with its obligations and collections processes to agree payment of the overdraft
- Pay Mr L £250 compensation

My final decision

For the reasons above, I have decided to uphold this complaint. TSB Bank plc must now put things right as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 16 December 2024.

Ketan Nagla
Ombudsman