DRN-5344203

The complaint

Mrs M is feels that Lloyds Bank PLC may have miscalculated her loan.

What happened

In November 2017, Mrs M took out a personal loan with Lloyds and received the £10,556.27 loan funds that same month. The terms of the loan included that Mrs M would make monthly repayments of £198.67 per month over an 84-month term with an annual interest rate of 14.14% and an APR of 15.1%.

Mrs M made the first £198.67 loan repayment in November 2017. But the following month, in December 2017, Mrs M took a payment holiday on the loan so that no payment was received by Lloyds for that month.

Furthermore, from the start of 2018 to the end of 2021, there were a further 14 occasions where Mrs M didn't make a monthly payment to the loan. And on each occasion, this led to an increase in the total loan balance that Mrs M had to pay (because of the additional interest that each missed payment accrued) as well as an extension to the term of the loan.

In June 2024, Mrs M complained to Lloyds because she felt they might have miscalculated the amount outstanding on her loan and the term length remaining. And Mrs M was also unhappy with some of the service she'd received from Lloyds when discussing the matter with them.

Lloyds responded to Mrs M and didn't agree that they'd miscalculated the loan. However, Lloyds did accept that some of the service that Mrs M had received from their agents hadn't been to the standard that Mrs M was entitled to expect. And Lloyds apologised to Mrs M for this and paid £300 to her as compensation for any trouble or upset this may have caused. Mrs M wasn't satisfied with Lloyds' response, especially as she still didn't understand how the balance and term of her loan had grown to the extent that they had. So, she referred her complaint to this service.

One of our investigators looked at Mrs M 's complaint. But while they understood Mrs M's confusion surrounding the loan, they felt that Lloyds loan calculation was accurate. And they also felt that the apology and £300 that Lloyds had paid to Mrs M regarding the service aspect of her complaint already fairly resolved that part of Mrs M's complaint. Mrs M didn't accept the view of this complaint put forward by our investigator, so the matter was escalated to an ombudsman 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.

I issued a provisional decision on this complaint on 18 February 2025 as follows:

Mrs M would like to better understand the calculation of her loan, including why Lloyds *maintain that the outstanding balance of the loan and the term length are as they are. Over the course of the loan to date, there have been fifteen months where Mrs M hasn't made a payment to the loan. Each of these instances has had two effects:*

Firstly, because interest on the loan is calculated on a monthly basis on the outstanding balance remaining at the start of the month, the fact that a payment isn't made means that the balance remaining doesn't reduce as anticipated. This means that the outstanding balance at the start of the next month (and all subsequent months) is higher than expected, which in turn means that more interest becomes due on the higher start-of-month balance than would have been the case had the monthly payment not been missed.

Secondly, the missed payment still must be made at some point. And so, the missed payment is added to the end of the loan term, extending the term by one month.

Furthermore, because the terms of Mrs M's loan include that the monthly payment amount will remain constant at £198.67 per month. This means that any events which cause the total amount outstanding to increase because additional interest becomes due – such as a missed payment – will also cause the term length to increase. This is because the additional interest that becomes due can only be added to the loan as additional £198.67 payments at the back end of the loan.

Finally, because interest on the loan is calculated monthly, any missed payments that take place towards the start of the loan term will cause a larger amount of additional interest to become due that missed payments that might take place towards the end of the loan term. In this instance, Mrs M missed a payment in the second month of the loan. And we can use this missed payment to demonstrate the impact that a missed payment has on the balance outstanding and the loan term.

The original term of the loan was a capital balance of £10,556.27 repaid over 84 months with 83 payments of £198.67 and a final payment of £65.11, for a total repayable balance of £16,554.72. This means that over the term of the loan, Mrs M would repay the £10,556.27 capital balance along with £5,988.45 interest.

If we take the first three months of the loan, when Mrs M took the loan, the details of those payments as per the original loan schedule were as follows:

Month	*Starting Balance*	*Monthly Interest*	*Payment*	*End-of-Month Balance*
1	*£10,556.27*	*£73.63*	*£198.67*	*£10,431.23*
2	*£10,431.23*	*£122.97*	*£198.67*	*£10,355.53*
3	*£10,355.53*	*£122.07*	*£198.67*	*£10,278.93*

This shows that the starting balance of the loan was £10,556.27, and when the first loan payment became due, £73.63 interest was added to that capital balance. Notably, this £73.63 was less than the following months. This was because interest on the loan is calculated daily, and because when Mrs M received the loan funds there wasn't a full month until the first payment was due. As such, the £73.63 interest amount is a pro-rata amount calculated for the specific days that Mrs M had the loan before the first payment was due.

When Mrs M made the first payment of £198.67, this paid off the £73.63 interest that had accrued, with the remaining portion of that £198.67 payment (£198.67 - £73.63 = £125.04) reducing the capital balance outstanding. This meant that the capital balance reduced to (£10,556.27 - £125.04 = £10,431.23).

Then, when the second loan payment became due, monthly interest of £122.97 was scheduled to be added to the outstanding capital balance of £10,431.23, which increased *the outstanding loan balance to £10,555.20. This means that if Mrs M had made the second loan payment, that £198.67 payment would have cleared the £122.97 interest that had accrued, with the remaining £75.70 of her loan payment being used to reduce the outstanding capital balance from £10,431.23 to £10,355.53.*

Furthermore, on the third month, £122.07 interest would have accrued, meaning that the loan repayment of £198.67 would have cleared that interest so that the remaining portion of that payment, £76.60, would have reduced the outstanding capital balance of the loan from £10,355.53 to £10,278.93.

However, because Mrs M took a loan repayment holiday in month two of the loan, so that no payment was received for that month. The actual loan calculation for the first three months looks as follows:

Month	*Starting Balance*	*Monthly Interest*	*Payment*	*End-of-Month Balance*
1	*£10,556.27*	*£73.63*	*£198.67*	*£10,431.23*
2	*£10,431.23*	*£122.97*	*£0*	*£10,554.20*
3	*£10,554.20*	*£124.42*	*£198.67*	*£10,479.95*

In this instance, because Mrs M didn't make a payment in month two, the £122.97 interest that had accrued for that month wasn't cleared, and it also meant that capital balance wasn't reduced either. This meant that at the end of month two, the outstanding balance of the loan had actually increased by £122.97 (the interest amount) to £10,554.20, rather than being reduced to £10,355.53 as would have happened had Mrs M made the payment.

Additionally, and importantly, because the outstanding loan balance at the end of month two was higher than projected (because Mrs M hadn't made the payment), this meant that the interest that accrued in month three on the loan balance was also higher than it would have been, had the month two payment been made. With the monthly interest amount being £124.42 instead of the projected £122.07.

This higher monthly interest amount meant that the £198.67 payment that Mrs M made in month three first had to clear a higher amount of monthly interest than anticipated before the remainder of the payment could be used to reduce the outstanding capital balance. And this in turn meant that the outstanding capital balance the next month was higher than anticipated, meaning that more interest accrued, and meaning that the £198.67 payment reduced the outstanding capital balance by a less-than-anticipated amount. And so on, through every single remaining payment of the loan.

Considering the full length of the loan, the cumulative effect of Mrs M missing this one £198.67 payment in month two was that total amount of interest payable on the loan increased from £5,988.45 to £6,326.05 – an increase of £337.60.

Additionally, because Mrs M still had to pay the £198.67 that she hadn't paid in month two, this meant that the £198.67 payment amount and the £337.60 additional interest payable (totalling £536.27) were added to the end of her loan. And this meant that the term of the loan was forced to extend to 86 months, with all payments being £198.67 except the final loan payment, which would be £194.04.

Following not making a loan payment in month two, Mrs M also didn't make a loan payment in month four. This missed payment had a similar effect to the missed payment in month two. An examination of the starting balance for month five of the loan, and the interest accruable in that month, demonstrates this fact.

At the start of the loan, it was projected (on the basis that all monthly payments would be made) that the balance of the loan at the start of month five would be £10,201.43, and that £120.26 interest would accrue that month.

When Mrs M missed the month two payment, the projected outstanding balance at the start of month five was recalculated as being £10,404.82 with the monthly interest amount for that month being calculated as being £122.65 (a £2.39 increase).

When Mrs M missed the month four payment, the projected outstanding balance at the start of month five was recalculated as being £10,603.49 with the month interest amount for that month being calculated as being £125.00 (a £4.74 increase from the original projection).

Indeed, by missing the month four payment, in addition to the month two payment, the total interest payable on the loan increased to £6,658.10. This is an increase of £669.65 from the original loan schedule – from just two missed payments towards the start of the loan.

And, when the two missed payment amounts of £198.67 are taken into consideration as well, the figure rises from £669.95 to £1,067.00 – which had to be added to the end of the loan, extending the term. Indeed, after Mrs M didn't make the month four payment, the term of her loan was recalculated as being 89 months, rather than the original 84.

I won't be proving a similar breakdown of the further thirteen monthly payments that Mrs M didn't make (although I will make that information available to Mrs M). But I will note that after the fifteenth missed payment, in July 2021, the cumulative effect of these missed payments meant that the total amount of interest payable on the loan had increased to £10,247.27, and that the term of the loan had increased to 120 months.

Importantly, having reviewed the detailed information provided to this service by Lloyds, I'm satisfied that Lloyds haven't miscalculated Mrs M's loan as she believes may have been the case here, and that Lloyds understanding of Mrs M's loan isn't unfair. If Mrs M continues to have doubts about the validity of Lloyds calculations in consideration of the detailed information which this service will provide to her, she may wish to seek financial advice to help her fully understand the loan calculation.

Regarding the service aspect of Mrs M's complaint, I'm in agreement that some of the service that Lloyds have provided to Mrs M surrounding this matter should have been better. However, I feel that the apology and payment of £300 that Lloyds have made to Mrs M already provides a fair and reasonable resolution to that aspect of Mrs M's complaint.

All of which means that my provisional decision is that I won't be upholding this complaint or instructing Lloyds to take any further or alternative action. If Mrs M can clearly demonstrate that Lloyds' understanding of when she has and hasn't made payments towards this loan is incorrect, then that may cause me to reassess my decision.

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Mrs M responded to my provisional decision but didn't provide any information about payments she felt that Lloyds hadn't accounted for in their calculations. However, Mrs M did provide screenshots of two different systems which appeared to show different balances and terms remaining for Mrs M's loan.

I asked Lloyds about the apparent discrepancy that Mrs M had highlighted. In response, Lloyds explained to my satisfaction that the two screenshots provided by Mrs M corresponded to the loan balance approximately four months apart from each other, with one screenshot showing the balance in the July 2024 period and the other showing the balance in the November 2024 period.

Additionally, Lloyds also confirmed to my satisfaction that as of 28 February 2025, the actual balance of Mrs M's account was £5,225,69. Interest will accrue on this balance every month, as per the loan agreement, increasing the overall balance, which will then be decreased when Mrs M makes the scheduled £198.67 payment towards the end of the month. And if Mrs M makes all the scheduled monthly payments of £198.67, Lloyds have confirmed that she will have 32 payments remaining, with the next payment being due towards the end of March 2025.

All of which means that I remain satisfied that there isn't any reasonable indication that Lloyds have miscalculated Mrs M's loan as she was worried might be the case. And it therefore follows that my final decision is that I do not uphold this complaint against Lloyds or instruct them to take any further or alternative action.

I hope that Mrs M is reassured by the reviews of her loan account that have been undertaken by Lloyds, our investigator, and by myself, and that she understands why I've arrived at the final decision that I have.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 10 April 2025.

Paul Cooper
Ombudsman