

The complaint

Miss W complains that Metro Bank PLC trading as RateSetter gave her misleading information when she settled her loan which she said led to significant financial and emotional consequences.

What happened

Miss W took out a RateSetter loan. On 4 August 2024, she made a lump-sum payment of £2,328.04, believing this would settle her loan. She says that the RateSetter platform indicated that the loan was settled, and so she cancelled her direct debit.

On 8 August 2024, Miss W received a message from RateSetter about a missed payment of £684.49. The payment was due on 7 August 2024, but Miss W said she wasn't aware this still needed to be paid when she settled the loan. Miss W contacted RateSetter and says that it refused to reverse the lump-sum payment and instead offered to set up a new payment plan. Miss W accepted this but then realised this had affected her credit file. She said she wasn't told the payment plan would be reported to the credit reference agencies or would negatively affect her credit score. She also said that no affordability checks were conducted to assess whether she could have afforded to pay off the outstanding balance in full or to understand her situation before setting up the new payment plan.

Miss W said this situation has affected her credit score which in turn caused her credit card limits to be reduced causing substantial financial stress. She explained that she was in the process of applying for a mortgage, which was put at risk. She said this issue had caused her a great deal of anxiety.

RateSetter issued a final response dated 30 September 2024. It said that when Miss W made her payment on 4 August this didn't fully settle the loan as there was an instalment that fell due on 7 August 2024 of £684.49 which also needed to be paid. It didn't accept that this had been miscommunicated saying it was clearly stated on Miss W's online account when she logged in on 4 August 2024 that her agreed payment of £684.49 was due in the next few working days and that the settlement amount and breakdown were based on this payment being successful.

Regarding the payment plan, RateSetter said that Miss W contacted its Specialist Customer Support team on 8 August 2024 about the outstanding balance on her loan. RateSetter explained that the lump-sum payment couldn't be reversed but that an affordable repayment plan could be set up to pay the outstanding balance and that a complaint could be raised. Miss W was asked how much she could afford to repay and she was then sent information confirming the payment arrangement and that this would be recorded with the credit reference agencies. It said that it hadn't recorded a default with the credit reference agencies as Miss W had suggested but that the arrangement was recorded accurately.

Miss W referred her complaint to this service. Our investigator looked at the information that would have been seen when Miss W was settling her loan and wasn't persuaded that it was clear that she shouldn't cancel her direct debit.

Regarding the payment plan, our investigator said that the email chain didn't show that Miss W had accepted the payment plan, and he noted her comment that she wanted her settlement payment to be used to cover the instalment amount but was told that this couldn't happen. He said that Miss W's settlement payment was around four times her instalment payment and it was RateSetter's systems that didn't allow that payment to be used for a contractual payment. He said that Miss W had evidenced she had the money available to make the payment and it was because of the conversation she was having about the lump sum payment that she didn't make the additional payment. Overall, our investigator didn't think that RateSetter had acted fairly when the settlement amount had been paid by only offering a payment plan which then had an impact on Miss W's credit file. Because of this he thought that all negative information should be removed from Miss W's credit file from August 2024 regarding this loan.

RateSetter didn't agree with our investigator's view. It said that the settlement amount didn't include the scheduled payment as this was already being processed. It explained that the online portal displays a message when a customer logs in stating that if they have a direct debit instalment in process this will still be due if they settle the loan. It said that Miss W wished to set up a repayment plan and she provided her proposed payments which it accepted. RateSetter showed that it provided Miss W with the information about the payment plan including reporting the arrangement to the credit reference agencies. It said that Miss W repaid the arrangement in full on 27 September 2024 and it updated her credit file to show this. RateSetter didn't accept that its communication was unclear or that it had done anything wrong regarding Miss W's account.

Miss W said she was provided with misleading information which led her to believe the loan had been settled in full which was why she cancelled her direct debit. She said that RateSetter hadn't made it clear that entering into the payment plan would result in a negative marker on her credit file and had she been told this she would have cleared the balance immediately. She said the impact on her credit file has had serious financial consequences.

As a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman, to issue a 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.

This complaint has arisen due to misunderstandings around the settlement process of Miss W's loan and subsequent setting up of a payment plan. I have considered all of the information provided to assess whether Miss W was given the information she needed to understand the process and the implications of setting up the payment plan and whether RateSetter should have done more to assist Miss W.

Miss W logged on to her online portal on 4 August 2024 to make a settlement payment for her loan. I find it reasonable based on Miss W's testimony and her actions to accept that she intended to pay the full settlement amount to clear the loan. However, as Miss W's next scheduled loan repayment was due on 7 August 2024, the direct debit was already in process and wasn't included as part of the settlement figure Miss W paid. RateSetter has explained its process and that the direct debit payments are called for a few days before payment date, and I agree this is a usual process. Therefore, I cannot say that RateSetter's systems were wrong to provide the settlement amount it did which excluded the upcoming instalment payment.

However, I also accept that Miss W believed that by making the payment she did she had

settled her loan and I note she has said that this was confirmed. Because of this, I can understand why she cancelled her direct debit. I have looked at the evidence RateSetter has sent about the information given when the payment was made. It has provided a screenshot which it said Miss W would have seen which says:

Making this payment will:

- ✓ Clear your accrued interest since your last payment
- ✓ Reduce your remaining amount
- ✓ May reduce your loan term
- ✗ Not impact the amount or date of your next scheduled payment.

While I accept the above notes the next scheduled payment not being impacted, as Miss W believed she was settling her loan, I think it reasonable she didn't think there would be a next scheduled payment. RateSetter has also said that when Miss W logged on to her account there would have been a message that said she had a direct debit instalment in process, and this would still be due if she settled the loan. I haven't seen a screenshot of this information. However, even accepting this information was provided when Miss W logged on, it is clear from her actions that she hadn't realised that the settlement amount she was given wouldn't include all amounts due and I think feedback should be taken in regard to this.

Miss W cancelled her direct debit and so the payment couldn't be taken. RateSetter contacted her about this and provided details of how she could pay the arrears. Miss W responded to RateSetter straight away to say she believed she had settled the loan. At this point, I think it should have been clear to RateSetter that Miss W had intended to repay her loan in full and that her actions didn't suggest financial difficulty (as the settlement payment she made was much higher than her regular instalment that would be due).

I can see that RateSetter explained why the arrears had arisen and said Miss W could make the payment by debit card. Had she done this her credit file may not have been affected depending on the timing of when the payment would have been made. However, Miss W raised her concern that she wasn't made aware of the instalment that still needed to be taken when she paid the settlement figure and she then asked for her settlement payment to be reversed and to return to the regular instalment payments. RateSetter said this wasn't possible and offered an affordable repayment plan. While I accept that RateSetter was trying to assist Miss W, I think it misunderstood her circumstances and that she had the funds available to make the required payment in full.

Discussion then took place about the amount Miss W could pay and I cannot see in this email chain that any reference was made to the payment plan affecting Miss W's credit score. However, I can see that the notice confirming the payment plan details included a notification that the arrangement would be reported to the credit reference agencies. Miss W accepted this.

Taking everything into account, while I do not find I can say that RateSetter did anything wrong by processing the settlement payment as it did and recording the arrangement on Miss W's credit file (up to when she settled the loan in September), I find that it should have provided better service through its process. I say this because Miss W had clearly intended to settle her loan in full and when she said she believed she had done this I think RateSetter should have explored further whether she could afford to make the instalment payment before suggesting a repayment plan. Had it done this and explained fully at that time the impact on Miss W's credit file of setting up a repayment plan versus making the payment in full, I find it more likely than not that Miss W would have paid the full amount (as she did when she realised her credit file had been affected). Therefore, in this case, I think better

service by RateSetter could have prevented this complaint arising. I also note that given Miss W had made a settlement payment above the amount due on her loan that reporting adverse information on her credit file regarding the remaining amount (due to this not being able to be taken from her settlement payment) doesn't seem to provide a fair reflection of Miss W's account management.

Taking all of the above into account, I agree with our investigator that the fair outcome to this complaint is for the adverse information recorded on Miss W's credit file in regard to the arrears and payment arrangement to be removed.

I accept this issue has caused Miss W distress and inconvenience, but I also find that had she made the payment in full when the missing instalment was identified that this could have mitigated this issue. Therefore, I do not require any compensation to be paid and find the removal of the adverse information is a fair outcome to this complaint.

Putting things right

RateSetter should remove any adverse information recorded on Miss W's credit file from August 2024, including removing any arrangement to pay markers and arrears markers.

My final decision

My final decision is that Metro Bank PLC trading as RateSetter should take the action set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 13 May 2025.

Jane Archer
Ombudsman