

## The complaint

Mr M complains that TSB Bank plc has incorrectly defaulted his loan account and reported this to the Credit Reference Agencies (CRAs).

## What happened

Mr M took out a loan with TSB in July 2022 for £35,000. The terms of the loan required him to make repayments of £766.93 each month for 60 months – the due date of the repayments appear to be around the end of the month.

Mr M says that in August 2024, TSB incorrectly issued him with a default notice. He says the default notice he received was for the wrong amount. Mr M adds that his account was never three months in arrears and so TSB shouldn't have defaulted it.

As a result of what's happened, Mr M has said that other creditors have reduced his credit limit which has affected his ability to meet his monthly expenses. It has also impacted on his mental health and caused him anxiety.

TSB responded to Mr M's complaint; it agreed to remove the default and pay Mr M £300. However, when the complaint was referred to this Service, TSB said it had made a mistake and felt that the default should still apply. But it said it would honour the offer to pay him £300.

An Investigator considered what both parties had said, and they felt that Mr M's complaint should be upheld. They explained that they didn't think Mr M had been in three months of arrears at any point, and so a default shouldn't have been registered. The Investigator felt it was fair of TSB to remove the default and pay Mr M the £300 it had agreed.

Neither party agreed with the Investigator's view. TSB felt that it had correctly applied the default – and doing so was a fair reflection of how Mr M had managed the account.

Mr M didn't feel that the £300 was enough for the distress and inconvenience caused to him by the registering of the default. He also felt that TSB's reporting of the missed payments should be removed from his credit file.

Because an agreement couldn't be reached, the complaint was passed to me to decide on the matter.

I previously issued a provisional decision on this case; it was my intention to come to the same outcome as the Investigator, however, I provided additional reasoning and I wanted to give both parties the chance to respond before I came to my final decision on the matter.

I have copied my provisional findings below, which also forms part of this final decision.

*"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint."*

*I have read and taken into account all of the information provided by both parties, in reaching my decision. If I've not reflected something that's been said it's not because I didn't see it, it's because I didn't deem it relevant to the crux of the complaint. This isn't intended as a discourtesy to either party, but merely to reflect my informal role in deciding what a fair and reasonable outcome is. This also means I don't think it's necessary to get an answer, or provide my own answer, to every question raised unless I think it's relevant to the crux of the complaint.*

*In this case, I think it's clear to see that Mr M got into difficulties maintaining his loan repayments. Mr M's loan repayments appear to have been due around the end of each month – any repayment made after the due date is considered to have been missed/late. And a credit file should reflect this.*

*I'm in agreement with TSB here that Mr M's account had been in consistent arrears since June 2024. So, there was always at least one payment outstanding at all times. I understand Mr M doesn't think that there were any payments due when TSB defaulted his account, but I don't think that's the case. While he paid off the amount outstanding from September on 28 October 2024, the payment due towards the end of October 2024 was still due, outstanding and unpaid at the point of default. Because of this I can't conclude that Mr M wasn't in arrears at the time the account defaulted.*

*The ICO (Information Commissioner's Office) has issued guidance to explain that an account should default when it is in at least three months of arrears, and it would expect to see an account defaulted when it has reached six months of arrears. In this case, Mr M had been in arrears for more than three months, in that at least one repayment had been left unpaid over at least a three-month period. However, it's been argued that he didn't have a build-up of arrears of three months at the point of the default – that's because whilst one repayment remained outstanding, he did make other payments to cover other months. It appears this is down to how TSB has recorded the manual repayments Mr M made to the account. I make this point for information and background only; I haven't made the finding on how many months Mr M was in arrears for, because I'm currently of the view that the complaint should be upheld for a different reason.*

*The purpose of defaulting an account is to show that the relationship between the parties has broken down to a point where it becomes clear that the customer isn't going to be able to repay the debt. But I think it's arguable to say the relationship had broken down to the point of it becoming clear that Mr M wasn't going to repay the debt. I say this because Mr M was still making repayment towards the debt, albeit late.*

*I have looked at the default notice issued by TSB. This required Mr M to pay £1,533.86 by 9 September 2024. Mr M remedied the breach in the default notice by paying the sums outlined in the letter before the due date. I accept that another payment became due during the time Mr M had to remedy the breach in the default notice; it appears that TSB used some of the payment made on 28 August 2024 to go towards the August payment, instead of remedying the breach in the default notice.*

*But the default notice is clear in stating that Mr M needed to pay £1,533.86 by 9 September 2024, which he did. In my view, it wasn't clear from the default notice that Mr M would need to also make this extra payment to bring the account fully up to date. And when Mr M carried out the actions required of him in the default notice, he essentially remedied the breach.*

*Following the default notice, I can see TSB sent Mr M a final demand to repay what he owed. This required him to pay the full amount 'immediately'. Mr M didn't do this and so the account defaulted. But because Mr M remedied the breach as set out in the previous default notice, the breach should have been treated as though it never existed. So if TSB wanted to*

*default the account at a later stage, because of non-payment, I think it would have been fair and reasonable of TSB to have issued another default notice to Mr M. And as far as I'm aware, it didn't do this. Because of this, I don't think it would be fair for TSB to report the account as having defaulted when it did. And I will require TSB to remove the default from Mr M's credit file.*

*I will add here though that I think it's clear Mr M has struggled to keep up with repayments. I don't know what the position of his account is at the moment. But I'd like to make it clear to Mr M that the removal of the default doesn't mean that his account can't default in the future if repayments fall behind.*

*Mr M has said that he wants TSB to remove the other adverse information from his credit file. After looking at the credit file information Mr M has provided this Service, I can see that there are late or missed payments showing on there. A credit file should be an accurate reflection of how someone has managed their account. And in this case, Mr M has been consistently late in making repayments and so this should be recorded. Because of this, I won't be asking TSB to remove the missed or late payments from his credit file, because these are an accurate reflection of how he has managed the account.*

*I note Mr M has said that the default showing on his credit file has caused other creditors to reduce the credit available to him on other accounts. But given the number of payments Mr M has made late, it is possible that other creditors would have taken this decision regardless. So I'm not persuaded it was just the default in isolation that led to Mr M's other creditors reducing his limit.*

*I note that Mr M also thinks that he should be refunded the interest he has paid on the loan. I'm not persuaded TSB should do this for now. The interest is the amount Mr M agreed to pay TSB for the cost of borrowing when he first took out the loan. I agree that TSB has unfairly defaulted the account, but I don't think it follows that he shouldn't pay any interest. I would ask TSB to consider doing this where the account has defaulted. Or where an arrangement needs to be made for reduced repayments due to affordability reasons – which would also impact on Mr M's credit file, which he currently seems keen to avoid. So I won't be asking TSB to refund any interest at this time. Although, if Mr M does require help with his repayments, then I would expect TSB to look at what it could do to help him – although to be clear, this will likely result in information being recorded on the credit file.*

*I've also considered what Mr M has said about the amount of time he has had to spend sorting the matter out. I accept that this has likely been time consuming and inconvenient.*

*However, I think the £300 offered by TSB fairly reflects this. So, I won't be asking it to do anything more."*

Both parties provided detailed submissions in response to my provisional decision. I have summarised what I feel to be the main points below.

TSB said (in brief summary):

- It didn't agree that Mr M had repaid the sum outlined in the default notice. And it provided detailed reasoning as to why.
- Between June and October 2024, there was never a period where the Direct Debit repayments and manual payments cleared the arrears in full, which would have allowed it re-age the loan (effectively resetting it) and allowing Mr M to continue making the contractual Direct Debit repayments on time, in line with the loan agreement.

- It didn't agree it had made an error with the default being applied and it said it doesn't have grounds to remove this.
- It pointed to its Credit Risk Policy to show that it had correctly defaulted the account.

Mr M said (in brief summary):

- TSB shouldn't profit from the interest where it wrongly terminated his agreement. He should only pay interest up until the point the loan account was terminated.
- On at least two occasions during the period in question, he was up to date with repayments.
- When the account defaulted on 30 October 2024, he wasn't in arrears.
- My provisional decision is incorrect in stating the purpose of a default.

### **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.

As with my provisional decision, I haven't commented on everything that has been raised – although I have thought about all of the arguments very carefully.

I think it's important to set out the repayment history on this account as I understand Mr M still disputes that he was in arrears at times that he was.

- June 2024, direct debit for £766.93 returned, and repayment missed
- July 2024, direct debit for £766.93 returned, and repayment missed. The account was in arrears of two months for £1,533.86 at this point.
- Arrears notice and default notice sent letting Mr M know that he needed to pay the arrears which totalled £1,533.86.
- On 23 August 2024, Mr M made a manual payment of £780, which cleared the June 2024 missed payment. And left an arrears balance of £753.86
- On 28 August 2024 Mr M's direct debit collected for £766.93, which paid his August repayment. So, at this point, Mr M was still in arrears of £753.86, as most of the July 2024 repayment was still outstanding.
- In September 2024, direct debit returned, and repayment missed. At this point, Mr M owed July's repayment and September's repayment. Arrears total was £1,520.79.
- In October 2024, Mr M made a manual payment of £770, which covered the July arrears and part of September arrears. Arrears balance was £750.79
- October direct debit was successfully collected – which went towards the October repayment. Arrears balance £750.79
- The account defaulted at the end of October, still with part of September's repayment missed – arrears balance of £750.79.

So, it is my view that Mr M was in arrears at the point the account defaulted. And he hadn't ever cleared the arrears during the period in question. That said, it is still my view that the account shouldn't have defaulted. I'll explain why.

The ICO guidance states that an account should default when it is at least three months in arrears. In Mr M's case, there weren't any repayments that had been outstanding for three months or more. The maximum time of arrears on the account was two months. And at the point of default, he was one month in arrears.

TSB pointed me to its Credit Risk Policy, the contents of which I won't share here as it is commercially sensitive, although it does refer to four instalments had to be missed. But four instalments hadn't been missed in Mr M's case.

I accept it's possible that the account could have got to a position of being three months in arrears – especially given that it appears Mr M didn't make a payment after October 2024 (based on the evidence I've seen). That being said, I think the effect of the default, and the dispute over this, is what has caused no further payments to be made. And because of this, I can't reasonably conclude the account would have defaulted at a later date regardless – although I accept this is possible.

I also accept that Mr M's account had been in arrears since June 2024 – and was in arrears at the point it was defaulted in October 2024. However, I think it would be fair and reasonable of me to rely on the ICO's guidance on defaulting accounts in arrears when coming to my decision. This suggests that a payment should be overdue by at least three months before it should default – which hasn't happened here. To be clear, I say that because June 2024's monthly payment was repaid by the overpayment on 23 August 2024. July 2024's outstanding payment was cleared on 17 October 2024. So, at the time of the default, I believe only the September payment was outstanding – because the June and July payments were made up by overpayments, and Mr M did make his August 2024 payment (as well as his October 2024 payment, though that's not as relevant).

So, for the reasons set out above, I don't think Mr M's account should have defaulted when it did. And I'm still of the view that the default should be removed from being reported.

Turning to the other reporting on Mr M's credit file; Mr M has provided an extract from his credit report, that shows, June repayment fine, July '2' representing two lots of arrears, August repayment fine, September repayment fine and October default. In my view, the report should show June '1', July '2', August '1', September '2', October '1'. This would more accurately reflect the repayment history on the account. That said, it doesn't benefit Mr M for this to be changed, and so I won't be order TSB to put this right. However, as I've explained, the default should still be removed.

I've next considered Mr M's concerns about interest. When putting things right, I must consider what would have happened had the account not defaulted. Of course, this is now difficult given that subsequent events have led to Mr M not making repayments towards the balance. But ultimately, I'm to consider what would have happened had the default not occurred. And Mr M would have still been required to pay interest at the contractual rate, because he would have just continued to make repayments in line with the loan agreement. So, I'm of the view that Mr M should still be required to pay interest.

I recently explained to TSB that I still intended to uphold Mr M's complaint, and because of this, I asked it how it could put the account back in the position it would have been had the account not defaulted. That's because, interest would have stopped accruing on the balance at the point of default (and interest on this loan was accrued daily and applied monthly as opposed to the full amount for interest being added to the balance at the start of the agreement). I asked TSB this because I understand it can be complex to re-age the account, and I didn't want to make an order for it to do something, that it simply can't. I also explained to TSB that if it didn't provide me with a way forward, I would have to ask that it removes the default and Mr M repays the balance as it currently is, which would mean that he wouldn't be paying the interest he initially agreed to. TSB did respond, but it only set out why it didn't agree with my view that the complaint should be upheld, and it didn't explain to me how it could re-age the account in the way that I'd said would be fair. Therefore, my direction will be that the parties need to come to a suitable repayment plan, for Mr M to repay the balance as it is.

Finally, I've thought about compensation. I appreciate Mr M has likely been through a difficult time as a result of the default. But I'm not persuaded that he hasn't been able to get further credit as a direct result – for the reasons I've already explained about the other markers on his credit file, which would also likely be viewed negatively by other lenders. I do though accept that matter will have had an impact on him emotionally. However, I'm still of the view that £300 is a fair way to reflect this, when considering all of the available information and our published approach to distress and inconvenience awards.

### **Putting things right**

I order TSB to put things right by:

- Removing the default from Mr M's credit file.
- Coming to a suitable repayment plan with Mr M to repay the remaining outstanding balance.
- Pay Mr M £300 for the distress and inconvenience the situation has caused.

### **My final decision**

For the reasons set out above, I uphold Mr M's complaint. I order TSB Bank plc to put things right for him by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 9 January 2026.

Sophie Wilkinson  
**Ombudsman**