

The complaint

Mr B is unhappy with how Granite Finance Ltd handled his fixed sum loan agreement account when he entered breathing space, and its decision to cancel a car insurance policy the agreement funded.

What happened

Around August 2023 Mr B took a fixed sum loan agreement with Granite to fund the cost of a car insurance policy. The loan was for £859.03 and was due to run over eleven months.

Unfortunately, around the beginning of October 2023 Mr B was admitted to hospital and remained there for an extended period.

Whilst in hospital Mr B says he entered 'breathing space' because of the impact his health was having on his ability to deal with debts. As Granite were one of Mr B's creditors, they were informed of this breathing space at the end of October 2023.

Mr B left hospital at the beginning of January 2024. A few days later the insurance policy the loan was funding was cancelled by Granite, as Mr B had missed a payment in December 2023. Mr B has said he wasn't aware of the action Granite had taken to cancel the insurance policy, and so he was still driving his car.

On 22 February 2024 Granite received a further notice that Mr B was in 'breathing space'.

On the 23 February 2024, Mr B said he was arrested for driving without insurance. He says the car was impounded by the Police. He rang Granite to discuss this as he still thought insurance was in place.

On the 24 February 2024 Granite reinstated the insurance policy as a 'gesture of goodwill' so Mr B could collect the car.

Mr B explained when he went to collect the car, another business who provided him with car finance then wouldn't release it as he had missed payments while under breathing space. Mr B explained this led to a very serious situation regarding his mental health.

Mr B was unhappy with how Granite had handled things. So, in March 2024 he complained about what happened. He explained he had been 'incredibly ill'. Mr B said the situation caused significant distress to him and had a severe impact on his health and personal life.

Granite issued a final response on 24 April 2024. This explained, in summary, that Granite didn't attempt to collect a direct debit on 21 November 2023 due to Mr B being in breathing space. But it did try to take the December payment. It said the direct debit due on 21 December 2023 was returned unpaid. It said Mr B was sent several notifications about this, and the missed payment wasn't resolved. Granite considered it therefore correctly cancelled the insurance policy on 6 January 2024.

Granite explained it had reinstated the insurance policy the day after Mr B had made it

aware of the issues he experienced with the Police. Granite also said it would contact the insurer to provide a letter of indemnity to the Police.

Mr B remained unhappy and referred the complaint to our service. He explained the circumstances around him being in hospital. He said he didn't know the policy had been cancelled, as Granite had used old contact details. Mr B believed Granite had breached the guidance and rules around breathing space when handling his loan, including the actions it took for the missed payment. And he reiterated the extremely serious effect the situation had on his health conditions and wellbeing.

Granite explained to our service that due to an error it didn't attempt to collect direct debits from Mr B in October and November 2023 when it should have under the loan agreement. It said it had written off these balances and marked them as paid.

Our investigator issued an opinion and did not uphold the complaint. In summary, she said the breathing space meant Granite couldn't pursue Mr B for debts he owed at the point the breathing space notice was given, but this didn't apply to future payments due. So, she didn't think Granite had breached the breathing space by attempting to collect further direct debits from Mr B in December 2023.

She explained she thought Granite acted reasonably when it wiped the payments due from October and November 2023 due to the errors in collecting the payment.

Our investigator said she didn't think Granite did anything wrong when it cancelled the insurance policy, as it explained this was what would happen if the payment from December 2023 wasn't received. And she didn't think Granite needed to take further action.

Mr B disagreed. In summary, he said Granite had breached breathing space, breached the 'vulnerable persons policy' and gone against our service's own standards.

We asked Mr B for some further information. He explained he had informed Granite about his health, situation and treatment following it becoming aware he was in breathing space.

Mr B also provided evidence his breathing space ended on 10 April 2024.

Granite explained it had no evidence Mr B told it about his health conditions until February 2024. It also explained Mr B was contacted by text message, email and post when he missed payments.

As Mr B remained unhappy, the complaint was passed to me to decide. I sent Granite and Mr B a provisional decision on 30 September 2025. My findings from this decision were as follows:

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 initially think this complaint should be upheld. I'll explain why.

I'd like to explain to both parties that I may not comment on every single point raised nor every piece of evidence. Instead, I'm going to focus my decision on what I think are the key facts and the crux of the complaint. This reflects the informal nature of our service.

Having thought about things, I think there are two main points Mr B makes. Firstly, that Granite didn't follow the breathing space guidance or other rules, and that it acted unfairly when it cancelled his insurance policy.

It's first worth setting out the background for the breathing space and the relevant guidance, along with Granite's other obligations at the time. The protections around breathing space are somewhat complicated, so I am going to summarise things below.

Rules and guidance:

I can see Granite were sent a notice, which I believe came from the Insolvency Service, explaining the debt owed under the agreement went into breathing space on 27 October 2023. The notice explained this was a government scheme designed to help people with their debts. The notice explained Granite could not take any action against Mr B for debts owed. And it said a further notification would be sent when the breathing space ended. It's worth noting I haven't seen Granite were informed the breathing space ended until April 2024.

The rules that apply here are set out in The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020.

The UK government website explains the following regarding Breathing Space (Debt Respite Scheme):

"If you live in England or Wales, you can get temporary protection from your creditors while you get debt advice and make a plan. This scheme is called 'Breathing Space'.

You can get temporary protection for up to 60 days.

You'll still need to make your debt repayments.

If you get it:

- *enforcement action cannot be taken against you*
- *your creditors cannot contact you about debts included in your Breathing Space*
- *your creditors cannot add interest or charges to your debt*

If you're getting mental health crisis treatment, your protection from creditors will be longer. It will last for the length of your treatment, plus another 30 days."

On the UK government website, a helpful summary and advice is given under "Debt Respite Scheme (Breathing Space) guidance for creditors":

"As a creditor, if you're told that a debt owed to you is in a breathing space, you must stop all action related to that debt and apply the protections. These protections must stay in place until the breathing space ends."

It sets out:

"The government expects that creditors will act in accordance with the intent of the breathing space policy. A breathing space is intended to help to create time and space for a person to get the help they need, without having to worry about their financial situation getting worse.

A creditor that chooses to take action during this time might need to consider other legal or regulatory obligations and guidance that may apply to them (for example, as a result of a debtor's vulnerability)."

In relation to payments falling due, it explains:

“A breathing space is not a payment holiday.”

“a debtor is still legally required to pay their debts and liabilities.”

“You can continue to accept these payments, including those you get from existing direct debits.”

The guidance states Granite should not have required Mr B to pay any:

“penalties or charges that accrue”.

The guidance also explains:

“Generally, during a breathing space, you (or any agents you have instructed) must not contact a debtor about any collection or enforcement action for a breathing space debt. This includes asking them to pay”

It is worth setting out that I’m satisfied the debt owed under this agreement was a ‘qualifying debt’. It’s also worth explaining that I’ve seen nothing to suggest the debt was ‘secured’. This means the whole debt entered breathing space, not just any arrears. And I disagree with what our investigator explained here. Because the debt was unsecured, this meant new arrears falling within the breathing space were not ‘excluded debts’ and so also fell under the breathing space protections.

As well as the fact Mr B was in breathing space during the period in question, Granite also had other obligations it was required to have in mind. These included those set out by the Financial Conduct Authority (‘FCA’) under the Consumer Credit Sourcebook (‘CONC’).

CONC 7.3.4 explains:

“A firm must treat customers in or approaching arrears or in default with forbearance and due consideration”

CONC 7.3.4B explains:

“When determining appropriate forbearance and treating the customer with due consideration, a firm must take into account the individual circumstances of the customer of which the firm is or should be aware.”

CONC 7.3.5 goes on to give various examples of what the above may look like.

When thinking about the ‘individual circumstances’, I’m satisfied Mr B would’ve been a ‘vulnerable consumer’ as set out in the FCA’s “Guidance for firms on the fair treatment of vulnerable customers” from February 2021.

There is some dispute here about when Granite would’ve become aware Mr B was ‘vulnerable’. Mr B says Granite was aware of his health and hospital admittance when it was told about the breathing space in October 2023, whereas Granite explained it wasn’t aware of this until February 2024.

Regardless of whether Granite was explicitly told Mr B was vulnerable, it was aware Mr B was in breathing space at the end of October 2023. And, as such, I’m satisfied it should have treated Mr B as vulnerable until - at the very least - it was confirmed Mr B’s breathing space had come to an end. From what I’ve seen, this wasn’t confirmed until 10 April 2024.

This means Granite should also have had in mind relevant guidance about vulnerable

consumers.

Having explained the relevant rules and obligations above, I've gone on to consider whether Granite acted appropriately when Mr B missed payments due under the agreement.

Missed payments:

Granite has explained the payments due in October and November 2023 were not collected due to an error by itself – not due to an error nor nonpayment by Mr B. This means when considering the December 2023 payment, I'm satisfied it's reasonable to consider Granite's actions in the context that this was the first missed payment under the agreement at that time, and that it would not be reasonable to treat the account as if it was already in arrears.

In terms of what happened when the payment was missed, I'm satisfied:

- *On 21 December 2023 a direct debit was returned unpaid from Mr B's bank account.*
- *On 22 December 2023 a default notice was issued to Mr B. A charge of £25 was added and the notice gave Mr B until 5 January 2024 to clear arrears on the account which stood at £116.14.*
- *On 29 December 2023 and 1 January 2024 'outstanding payment letters' were sent to Mr B. Granite also explained that Mr B was sent emails and text messages.*
- *On 5 January 2024 a 'policy cancellation letter' was sent by the broker, and the day after, the insurance policy was cancelled by Granite.*

Firstly, I've considered if Granite attempting to take payment in December 2023 when Mr B was in breathing space was in line with the regulations. In summary, the guidance from the UK government website explains Mr B wasn't in a payment holiday and Granite could accept payments from direct debits that were already set up.

So, I find Granite acted in line with the guidance when it attempted to collect the payment in December 2023.

I've then considered what happened when this was returned unpaid.

Granite charged Mr B a fee for nonpayment of this direct debit of £25. The breathing space guidance as above sets out that Mr B should not have been required to pay "penalties or charges". I'm satisfied Granite did "require" Mr B to pay this, as this was included in its default notices and other communications where it requested payment. So, I find it did not act in line with the guidance here.

I've also considered the letters in general Granite sent Mr B after the missed payment. It sent Mr B letters demanding payment and explaining his insurance would be cancelled if he didn't pay the debt, while in breathing space. It told our service it also sent communications via text messages and emails about the debt. I'm again satisfied this means Granite did not act in line with the breathing space guidance.

I've gone on to consider the default notice Granite sent. I've firstly considered what this means in terms of the account being in breathing space.

In the default notice sent, the letter demands payment of the arrears in addition to the £25 fee by 5 January 2024. I find this breaches the guidance.

Putting the breathing space aside, a default notice can be regarded as the last step before a relationship between a lender and consumer completely breaks down and an account is defaulted. In this case, Mr B had missed a single payment, and Granite issued the notice one day after.

It's important to note that there is a clear difference between issuing a default notice and defaulting the account. However, the default notice sent to Mr B clearly gives the impression the account would be defaulted and sets out that Granite intended to terminate the agreement, cancel the insurance policy and demand payment if the conditions weren't met.

So, I still think it is important to consider the guidance in the 'Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies' from the Information Commissioner's Office (ICO). This states in relation to recording defaults:

"As a general guide, this may occur when you are 3 months in arrears, and normally by the time you are 6 months in arrears."

Clearly issuing a default notice a single day after a missed payment, which gave a two-week deadline, is not close to the circumstances set out here.

I've also thought about the overall intention behind the breathing space and generally how Granite should've been treating the situation at this point.

Thinking about all of this, I find it was not reasonable for Granite to issue a default notice the day after a payment was missed, while Mr B was a vulnerable consumer in breathing space.

I've then thought about Granite taking the decision to cancel Mr B's car insurance policy and end the agreement. It's very important to set out the potential effects of Granite taking this step. This could, and did, leave Mr B in a very compromising situation. So, I think it's fair Granite should've considered this as an absolute last resort and had in mind the potential impact on Mr B of it taking this action. But, in summary, I can't see any indication Granite considered this.

Granite also cancelled the insurance when it was aware Mr B was in 'breathing space' on the connected debt. I've covered off the specifics of this above, but I also think it's worth mentioning I'm satisfied it should've generally had this in mind when considering what actions to take. Thinking about all of this, I find it did not 'create time and space' for Mr B to get the help he needed. By cancelling the insurance, I'm instead satisfied it made his situation worse.

Summary and putting things right:

In summary, I'm satisfied Granite didn't act fairly or reasonably and didn't act in line with the guidance and obligations when it issued the default notice, sent Mr B communications asking for payment, applied a £25 charge to the agreement, and when it ended the agreement and cancelled the insurance policy.

Granite was told Mr B was in breathing space, and this notice said it would be told when the breathing space ended. Granite should've waited for this notification before taking most of the actions it did – and it definitely shouldn't have cancelled the agreement or cancelled the insurance policy. If Granite wasn't sure what to do, it should've contacted the debt advisor who set up Mr B's breathing space for advice before taking any action.

I've then gone on to consider the impact of all of this on Mr B. I think, even though it appears he may not have received and dealt with them at the time, realising he had been sent letters

and other communication containing fees and default notices, when he should not have, must have been upsetting.

Far more seriously, I'm persuaded by what he told our service that Mr B was likely arrested for driving without insurance which led to his car being taken away. And as above, I don't think it was reasonable for Granite to have cancelled the insurance policy.

I've considered what Mr B said about not getting his car back. But I need to weigh up Granite's role here – I'm satisfied it was not Granite that ultimately stopped Mr B from collecting his car. I'm satisfied this was due to another finance company and this decision only considers Granite.

When thinking about a figure for compensation that would be fair and reasonable to reflect things, I have considered that when Granite did speak to Mr B and hear about the situation, it did take steps to put things right by trying to reinstate the policy and asking the insurer to provide a letter for the Police. But by this point, it had already caused serious harm.

Our service's approach to payments for distress and inconvenience can be found on our website. I'm satisfied, having considered this, that what Granite did wrong had a significant impact on Mr B. I want to reassure Mr B that I've carefully considered everything he's said about this, including the impact this had on his wellbeing.

Having thought about all of this, I'm satisfied it would be reasonable for Granite to pay Mr B £1,500 to reflect what happened.

I gave both parties two weeks to come back with any further comments or information.

Mr B responded and explained, in summary, that he thought a higher amount of compensation should be paid and reiterated some of the impact of the situation on him.

Granite replied and asked for an extension. It then later responded and made various points for me to consider.

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've carefully thought about what Granite said in response to my provisional decision.

In summary, Granite explained it thought I had incorrectly interpreted the breathing space guidance when I said the whole debt was a 'qualifying debt'. Granite said the future 'instalments' would be classed as *"an ongoing liability rather all being included as one debt for the purposes of breathing space"*.

I've very carefully thought about this. But respectfully, I don't agree with Granite here.

I've assumed the relevant guidance Granite refers to from the UK government website is:

"An ongoing liability is any payment the debtor has to pay during a standard breathing space for:"

"an insurance agreement"

I've very carefully considered this point. But I don't think the guidance above applied to the specific type of breathing space Mr B likely entered into.

Even if I'm wrong about this, I need to be very clear on Granite's role here. Mr B took a fixed sum loan with Granite. This means Granite was a creditor. It's important to note it was *not* the insurer.

When Mr B made monthly payments, these were to Granite. I'm satisfied these were to pay off the debt from the fixed sum loan agreement – so these were repayments, not instalments.

I accept what was financed under this agreement was insurance, but I find the repayments were *not* made to an insurance agreement, nor were they made to an insurer, nor was Mr B in debt to an insurer.

It follows I still find under the guidance that the amount owed by Mr B was a debt, not an ongoing liability.

Granite said only debts up to October 2023 were covered under breathing space as "*further debt*" fell outside of the scope of the protections. I think the point Granite makes here is it believes any monthly payments due to the agreement, past the time the breathing space started, shouldn't be included under the protections.

The guidance explains in relation to debt - "*Debts are any sum of money owed by the debtor to you*". It also says "*New debts incurred during a breathing space are not generally qualifying debts.*"

I'm satisfied the debt Mr B owed was listed under the finance agreement. I'm satisfied Mr B owed this amount *at the point he entered the contract*. I'm satisfied this means Mr B didn't take on *new* debt as time went on and the monthly repayments became due, these were payments towards an *existing* debt.

This means I'm still satisfied the *whole debt* fell under the breathing space regulations. It follows what Granite explained here doesn't change my opinion about the complaint.

Granite said the administration fees and notices were issued to Mr B in relation to debts that didn't fall under the protections. But, as above, I find this was not the case. So, this doesn't change my opinion.

Granite gave some information about the default notice it issued. It said this did not reference any intention to register a default or share information with credit reference agencies, and so the ICO principles should not have applied.

I've thought about this. But I still think, the above accepted, that the principles behind the ICO guidance can still be helpful when considering if Granite issuing the default notice was reasonable. Even if I fully accepted what Granite said here, ultimately this wouldn't affect the outcome of the complaint, nor what I think would be reasonable to put things right given what else happened.

Granite also said Mr B didn't take advantage of Granite's offer to review its "*forbearance options*" in the 14 days the default notice gave him.

I've considered this. But I don't think, given Mr B's situation at the time, that offering potential help in a letter made up for the other failings in how Granite treated the situation.

Granite explained that the insurance policy was cancelled in line with its terms and conditions. And it said as the missed payment wasn't covered by the breathing space regulations, this was reasonable.

As above, I find the whole debt was covered by the regulations. So, this doesn't change my opinion. It's also worth noting that, breathing space aside, even if Granite acted in line with its terms and conditions, this isn't the same as acting fairly and reasonably, nor in line with other guidance such as CONC.

Even if Mr B *wasn't* in breathing space, Granite knew he was a vulnerable consumer. I still think Granite needed to carefully consider the potential impact on Mr B of cancelling the policy. And so, I don't think it should've cancelled the insurance without further information from Mr B either way.

I've then thought about what Mr B said in response to the provisional decision. In summary, he said he thought the amount I suggested didn't reflect the distress caused and should be far higher.

Mr B mentioned the impact on his health, having to use public transport, reputational damage, the lasting impact of the situation, travel costs, the confusion caused, and the distress inflicted by having to deal with the Police.

Mr B also mentioned the impact of his car being taken away from him by the other finance provider.

I want to reassure Mr B that I've carefully thought about all of this. I've noted everything he's said, and I do understand the gravity of what happened.

But, having considered everything again, I still think the amount I recommended in my provisional decision is fair and reasonable, as well as reflecting our service's approach to these types of awards. This is for the same reasons I previously explained in my provisional decision and set out above.

My final decision

My final decision is that I uphold this complaint. I instruct Granite Finance Ltd to put things right by paying Mr B £1,500.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 December 2025.

John Bower
Ombudsman