

complaint

Mr H complains that Lloyds Bank plc transferred his account to a debt collection agency and recorded a default on his credit file.

background

Mr H was making regular payments to reduce his overdraft with Lloyds. But at the rate at which he was paying, it would have taken several years to pay off the balance. In April 2015 Lloyds told Mr H that it would offer him one final repayment plan, under which he'd have six months to pay off the balance. If he was unable to do so, the account would be closed and a default registered on his credit file. Lloyds refunded more than £360 of interest and charges to Mr H's account. And it confirmed that it wouldn't apply further interest or charges.

Mr H was unhappy that Lloyds wasn't prepared to allow him to continue the payments he'd been making until the debt was paid off. And he was keen to prevent his account being passed to Lloyds' recoveries department. Following our adjudicator's involvement, Lloyds agreed to a repayment plan under which Mr H would repay the debt by April 2016, with increased monthly payments.

Our adjudicator told Lloyds that he'd explained to Mr H that any lapse in payment would cancel the agreement with immediate effect. And he asked Lloyds to write to Mr H to confirm that he had until April 2016 to clear the debt. Lloyds confirmed that it would write to Mr H setting out the terms of the agreement. The adjudicator told Mr H that the repayment plan was in place until April 2016 and he'd receive confirmation of the plan by post.

But Lloyds didn't write to Mr H to confirm the terms of the new plan. And when he didn't contact it to increase his monthly payments, Lloyds transferred Mr H's account to a debt collection agency. And in October 2015 it recorded a default on Mr H's credit file.

Our adjudicator recommended that Mr H's complaint should be upheld. He didn't think it was fair that Lloyds had sent Mr H's account to its recoveries department without confirming the terms of the new plan to Mr H in writing. He said that in the absence of written confirmation from Lloyds, Mr H didn't realise he needed to contact Lloyds to increase the payment. He said that Lloyds should allow Mr H a further 12 months to repay the debt, with the agreed instalments of £50 per month. And it should remove the default from Mr H's credit file.

Lloyds doesn't agree with the adjudicator's view. It says that it was Mr H who suggested the increased monthly payment and said when he'd start to make it. So he knew when and what amount should be paid. It reiterates that Mr H needed to visit a branch and increase his monthly payment to activate the new plan. And it says all that it failed to do was write to him to confirm that he needed to repay the debt by April 2016.

Lloyds says that Mr H is in financial difficulties and missed his repayments for November and December 2015. It will remove the default if Mr H repays the debt by April 2016, as originally agreed. But it isn't willing to remove it before then. This is because if it removes it and Mr H is subsequently unable to repay the debt, it would need to record a further default, which would extend further into the future. It also says that the effect of the default on Mr H is negligible, as he already has a default on his credit file.

my findings

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've reached the same conclusion as the adjudicator.

Mr H understood that Lloyds would contact him with details of the repayment plan agreed in June 2015. When he didn't hear from it, he continued to make the payments he'd previously been making. I don't consider that to have been unreasonable. I acknowledge that the proposal to increase his repayments to around £50 per month had been Mr H's own suggestion. But in the absence of confirmation from Lloyds, I don't accept that he knew when and how to increase the payments.

It's true that no repayments were made to Mr H's account in November and December 2015. But Lloyds has now explained that this was because it closed his account after it received the October 2015 instalment, so the payments were returned.

Mr H is aware that if he is unable to keep up with repayments, another default may be registered on his credit file. But I don't think that it would be fair, in the circumstances, not to give him a chance to repay the debt and avoid a default.

So I consider that a fair solution to the complaint is for Lloyds to allow Mr H to repay the outstanding balance on his account by instalments of £50 per month. Lloyds should contact Mr H with clear details of how and when the payments are to be made. As previously agreed, Lloyds should not apply any interest or charges to Mr H's account while the plan is in force. And it should remove the default it registered in October 2015 from Mr H's credit record promptly.

my final decision

My decision is that I uphold this complaint. I direct Lloyds Bank plc to allow Mr H to repay the outstanding balance on his account at £50 per month, without applying any further interest or charges to the account. And I direct it to remove the default it registered in October 2015 from his credit record.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 March 2016.

Juliet Collins
ombudsman