

complaint

Mr Y complains that Erudio Student Loans Limited didn't make it clear that his account could be defaulted and terminated whilst he was in an agreed payment plan.

background

Mr Y has four student loan accounts with Erudio in respect of which repayments were deferred until 2015. In June 2015 Mr Y became eligible to start repaying the loans.

Mr Y's monthly contractual loan repayments were approximately £200. Mr Y contacted Erudio and explained that he couldn't afford repayments of £200. Erudio reviewed Mr Y's income and expenditure and agreed a reduced payment plan of £112 per month.

Mr Y says he spoke to Erudio in November 2016 and the payment plan was reviewed.

In May 2017 Mr Y received a Notice of Default. He contacted Erudio and says he was told that his account was going to default due to his arrears reaching £2000. Mr Y says he was told that to avoid the default he would have to pay the arrears in full or clear the arrears within a set period. Mr Y agreed with Erudio that he would repay the arrears at £560 per month over a 6 month period.

In order to repay the arrears over this period Mr Y has cashed in a share save scheme with his employer, which he says has lost him benefits of £500. He has also used funds which he had put aside for a deposit on a house and has borrowed from family. He says that repaying the arrears at this level has caused him financial hardship.

Mr Y feels that Erudio didn't make it clear that his account could still be defaulted and terminated whilst he was in an agreed payment plan. He says that Erudio didn't explain the consequences of arrears accruing on his account and that the arrears letters he received were misleading. He says he wasn't told that he would have to pay off the arrears in full once they reached a certain level.

The adjudicator upheld the complaint. She said that Erudio didn't explain to Mr Y that arrears would continue to accrue whilst he was in a payment plan. She said that Erudio had given Mr Y the impression that if he kept up to date with the payment plan the account wouldn't be defaulted. The investigator said that Mr Y was shocked to find out that his account was being defaulted and that arranging funds at short notice to clear the arrears and avoid a default had caused Mr Y distress and inconvenience.

Erudio didn't agree. It said that although it initially agreed not to default Mr Y's account whilst he was in a payment arrangement, it said that following the review in October 2016 it made it clear to Mr Y that the account would default if he continued to pay less than the contractual monthly payment. Erudio said that Mr Y chose to continue making reduced payments despite being made aware that the account would default.

my findings

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

I've listened to the call made by Mr Y to Erudio on 20 June 2015. Erudio explained to Mr Y that arrears would accrue if he didn't make the full contractual monthly payment. Mr Y said that he didn't want to be in arrears because he was concerned about the effect on his credit rating in the future. Mr Y asked Erudio to explain why arrears still accrued whilst he was in an agreed payment plan.

In the next call dated 22 June 2015 Mr Y asked whether he would accrue arrears if he paid £112 per month. Erudio confirmed that arrears of £85 per month would accrue and that this would affect Mr Y's credit file. Mr Y expressed concern about this and Erudio stated that the arrears wouldn't affect his credit file "just yet" but that arrears would be reported to the credit reference agencies "later in the future". Mr Y asked whether the arrears would be reported to the credit reference agencies if he kept to the payment plan. Erudio replied that if Mr y paid £112 per month then the account wouldn't be defaulted. Mr Y asked for confirmation that his account wouldn't go into default if it accrued arrears and Erudio agreed with him.

Based on these calls, I don't think it was made clear to Mr Y that the payment plan wouldn't continue indefinitely, and that at some point the arrears would need to be paid off in order to prevent the account from defaulting and terminating. In particular I think it was misleading to tell Mr Y that if he paid £112 per month his account wouldn't go into default. I can see how Mr Y was left with the impression that he could continue with the payment plan indefinitely and that provided he paid £112 per month the account wouldn't be defaulted.

Although Erudio said to Mr Y that the arrears would be reported to the credit reference agency in the future, it didn't clearly explain what the consequences of a reduced payment plan would be.

I've listened to the call dated 15 October 2016. Erudio told Mr Y that because he was still accruing arrears it would issue a default letter requesting full payment and terminate the account, but that as long as Mr Y continued to pay the amount which he had been paying under the payment plan the account wouldn't be passed to a third party.

I don't think it was made clear to Mr Y during the call that his payment arrangement was ending and that his account was being defaulted. It should be remembered that Mr Y was under the impression (from the 2015 call) that his payment arrangement was indefinite and that his account wouldn't be defaulted provided that he paid £112 per month. Even though Erudio told Mr Y that the account would be defaulted, this information was delivered in a confusing context because Erudio also told Mr Y that he could continue paying what he had been paying. Having listened to the call, I can understand why Mr Y was left with the impression that his payment arrangement was continuing. I don't think the default process was adequately explained and because of this, I don't think Mr Y understood that his payment arrangement was being terminated.

I've noted that at no point during the call did Erudio provide any information to Mr Y about the steps he could take to avoid the default. This is particularly important given that Mr Y had made it very clear in the 2015 calls that he wanted to avoid default.

I've looked at the letter sent by Erudio in October 2017. I don't think this is any clearer than the telephone call. It's confusing when it says "if we do not receive your repayments, the full arrears will become payable". It isn't clear which repayments should be received – the reduced payment of £112 or the contractual repayment. I understand how Mr Y was left with the impression that so long as he continued with his payment arrangement the account wouldn't be defaulted.

Taking all of the circumstance of the case into account, I think that Erudio failed to explain the consequences of entering into a reduced payment plan. I think that the information provided to Mr Y about accruing arrears and default was confusing and poorly communicated. If Mr Y had been properly advised of the consequences of a reduced payment plan in 2015, he might have made different choices.

For the reasons given, I think that Erudio should pay compensation of £300 for the distress and inconvenience caused to Mr E.

my final decision

Erudio Student Loans Limited should pay compensation of £300 to Mr Y.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Y to accept or reject my decision before 23 April 2018.

Emma Davy
ombudsman