

The complaint

Mr R complains that TSB Bank plc (“TSB”) reported a loan account to the credit reference agencies even though he withdrew from the loan agreement within the cooling-off period.

What happened

In October 2023, Mr R applied to TSB for a loan. His application was approved and TSB paid the loan money into his account. Mr R changed his mind about the loan and cancelled the agreement within the 14-day cooling-off period. He repaid the loan to TSB in full at the same time. But Mr R says that his credit score was negatively impacted by the loan. He raised a complaint with TSB.

TSB said that, when Mr R applied for the loan, he agreed to it carrying out a hard search of his credit file. It explained that this leaves a footprint on customers’ credit files which isn’t removed even if the loan is cancelled. TSB said it’s normal for customers to notice a slight dip in their credit score when they apply for lending, because the lending application is reported to the credit reference agencies in this way. But it said there shouldn’t be any negative impact as a result of the loan being cancelled, because the credit reference agencies would update Mr R’s credit file to show that it had been paid off in full. It said this could take up to eight weeks to show on Mr R’s credit file and advised him to check at a later date. TSB didn’t think it had done anything wrong, so it didn’t uphold the complaint.

But Mr R wasn’t happy with TSB’s response and brought the complaint to this service. He said that the loan shouldn’t be showing on his credit file at all as it was closed during the cooling-off period. He said that his credit score had dropped significantly, which was very stressful.

Our Investigator didn’t think TSB had acted unfairly by reporting the search or the loan account to the credit reference agencies. But he didn’t think the settlement date it had reported for the loan was accurate. He recommended that TSB change this to 25 October 2023. TSB accepted our Investigator’s findings. But Mr R said that TSB had acted incorrectly and caused him stress. He said it should pay him some compensation for this as well as the time and effort he spent pursuing the complaint. He asked for the complaint to be reviewed by an Ombudsman.

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.

TSB says it carried out a hard search of Mr R’s credit file before approving the loan application. I think that was reasonable. It’s usual for hard credit searches to be recorded on customers’ credit files. So, I’d expect the search to be recorded on Mr R’s credit file here. The search is part of the application process and would have remained on Mr R’s credit file regardless of whether he had been approved for the loan or whether he had cancelled the loan agreement. So, I don’t think TSB did anything wrong in relation to the search here.

TSB also reported the loan account to the credit reference agencies. Mr R suggests that, because he cancelled within the cooling-off period, the loan shouldn't be recorded on his credit file at all. I can understand his point of view. But I don't think TSB has done anything wrong by reporting the loan account.

The Consumer Credit Act 1974 says that, because Mr R withdrew from the loan agreement, it shall be treated as if it had never been entered into. When it comes to credit file reporting, different lenders may have different approaches to dealing with this. The legislation doesn't prevent TSB from reporting the loan to the credit reference agencies and then recording it as having been repaid. That's what it did here and I think that was reasonable.

The key thing is that any information which is reported about the account is correct. Our Investigator identified that the settlement date had been recorded on Mr R's credit file as 27 November 2023, but the loan had been repaid in full on 25 October 2023. I agree that the settlement date should be reported as 25 October 2023 so that the information on Mr R's credit file is accurate. TSB has agreed to amend this.

But, subject to this change, I think it's clear from Mr R's credit file that the account isn't active and doesn't carry an outstanding balance. There are no adverse entries about the account. Once the date is changed it will also be clear that it was repaid within days of the account being opened. I find that to be a true reflection of what happened. So, subject to the settlement date being changed, I don't think TSB has done anything wrong here.

Mr R says his credit score has dropped as a result of TSB's reporting. From the evidence I've seen, I can't safely conclude that any negative effect on his score is due to the TSB loan, as there are many factors which can affect a credit score. Hard credit searches can affect a customer's credit score. But I find that the search would have been recorded here whether or not Mr R accepted the loan and I don't think TSB did anything wrong in that respect.

Overall, I don't find that TSB acted unfairly here or did anything substantially wrong. The only error I have identified is reporting the incorrect settlement date. I think that should be corrected. But I don't think this mistake had any material effect on Mr R, especially as the date recorded was only one month later than the date which should have been recorded.

Mr R has found the situation stressful and says it has been time consuming to bring this complaint. I can understand his frustration, but I don't think that's TSB's fault. But for the error with the settlement date, I wouldn't be asking TSB to do anything here. But I think Mr R would have brought the complaint in any event.

I'm sorry to disappoint Mr R, but I don't think TSB needs to do any more than correct the settlement date of the loan.

My final decision

For the reasons above, my decision is that TSB Bank plc should record the settlement date of the loan as 25 October 2023 and report this to the credit reference agencies, if it hasn't already done so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 18 June 2024.

Katy Kidd
Ombudsman

