

The complaint

Miss S complains that TSB Bank plc defaulted her personal loan and recorded the default on her credit file.

What happened

On 12 March 2021 Miss S entered into a loan agreement with TSB. On her application Miss S stated that the loan was for the purchase of a vehicle.

Miss S initially kept up with loan repayments, but her direct debit dated 1 March 2022 was returned unpaid.

TSB wrote to Miss S on 15 March 2022 advising her that her loan was in arrears. Further letters were sent on 25 March 2022 and 5 April 2022. On 26 April 2022 TSB issued a Notice of Default.

On 4 May 2022 TSB was contacted by StepChange who advised that Miss S was only able to pay £35.03 each month. TSB agreed with StepChange that given the low value of repayments, it could only offer an informal plan whereby the account would be closed and defaulted to prevent further interest accruing. TSB issued a letter to StepChange confirming the details of the plan.

On 21 June 2022 TSB sent a formal demand letter to Miss S. A Notice of Default was issued on 29 July 2022.

StepChange contacted TSB again and proposed a new payment plan of £27.78 per month. TSB wrote to StepChange on 30 July 2022 and said it would accept the plan, but the account would still be defaulted and closed.

On 20 August 2022 TSB issued a letter to Miss S advising her that she had 12 days to contact them or repay the balance and if she didn't the account would be closed and passed to a debt recovery agent. TSB didn't hear from Miss S. On 9 September 2022 the account was defaulted. TSB wrote to Miss S advising her of the default,

Miss S contacted TSB on 3 October 2022. She explained that she had fled domestic abuse. She said she'd been made to take out the loan under duress.

Miss S made a formal complaint to TSB in July 2023. She felt that the loan had been defaulted unfairly and asked TSB to remove it.

In its final response TSB didn't uphold the complaint. It said the default had been correctly applied.

Miss S remained unhappy and brought her complaint to this service. Our investigator didn't uphold the complaint. She said TSB hadn't done anything wrong by accepting the loan application and said that TSB had acted reasonably by calling Miss S to discuss the application and asking her to come into branch to sign the loan agreement. The investigator said that TSB hadn't been provided with any information which would've given them any

concerns about Miss S's willingness to take out the loan or her ability to afford it. The investigator said she was satisfied that TSB had correctly defaulted the loan account because it was more than three months in arrears.

Miss S didn't agree so I've been asked to review the complaint.

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'm sorry to hear that Miss S experienced domestic abuse. I've had this in mind when considering the complaint.

Firstly, I've looked at whether TSB did anything wrong when Miss S applied for the loan. In particular, I've looked to see whether there was anything which ought to have alerted TSB to the fact that Miss S may not have been taking out the loan of her own free will.

When Miss S applied for the loan, she stated that the purpose of the loan was to purchase a car.

I can see that TSB called Miss S as part of the loan application process. During the call Miss S told TSB that she had written off her car and that her partner had purchase a new one which she owed him money for. Miss S explained that she needed a car for work.

I've reviewed the system notes for the call. I can't see anything in the notes to suggest that Miss S made TSB aware or said anything which ought to have made TSB aware, that she was being pressured in any way to take out the loan.

I can see that TSB asked Miss S to go into her local branch to sign the loan agreement. There's no evidence that Miss S said anything whilst she was in the branch which would have given cause for concern. TSB called Miss S the following day to finalise the loan and again, there's nothing to suggest that there was anything unusual about Miss S applying for the loan.

Looking at the application process overall, I'm satisfied that TSB acted fairly and reasonably throughout. I haven't seen anything in the process which ought to have given TSB any cause for concern.

I've gone on to look at whether the default was applied fairly. I've reviewed the history of the loan and I can see that Miss S was making regular repayments until March 2022.

The terms of the agreement required Miss S to make her contractual loan payment by the repayment date every month. When Miss S stopped making repayments, and began paying less than the contractual payment, arrears began to accrue on the account and TSB reported missed payments on her credit file. The terms and conditions of the loan agreement allow TSB to do this. The terms and conditions also explain how missed payments impact a credit file.

I appreciate that Miss S had sought help from StepChange and that TSB had agreed to accept a payment arrangement. However, just because a payment arrangement is in place doesn't mean that arrears don't continue to accrue, and the arrangement doesn't prevent negative information being reported on a credit file.

In this case, I can see that TSB were clear with StepChange about the fact that it intended to

default the account. The relevant guidelines say that lenders should default an account when there are between three and six months' worth of arrears. Based on what I've seen, TSB hasn't made an error here. I'm satisfied that the loan was more than three months in arrears at the point when TSB defaulted it.

All lenders are obliged to report accurate information to the credit reference agencies. TSB has correctly reported the default. I appreciate that Miss S wants the default removed as it is impacting her credit file and affecting her ability to obtain finance elsewhere. However, for the reasons I've explained above, I'm unable to say that TSB has made an error by defaulting the account and reporting the default to the credit reference agencies.

I understand that this isn't the outcome that Miss S was hoping for. This service asked TSB to speak to Miss S about the possibility of writing off the debt and I understand that this review has taken place. TSB has said that on review, it wasn't able to agree to remove the default or write off the debt as the funds had been used for the intended purpose and the loan was affordable at the time it was taken out.

Taking everything into consideration, I'm unable to say that TSB has made an error or treated Miss S unfairly. I'm unable to uphold the complaint.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 1 August 2024.

Emma Davy
Ombudsman