

The complaint

A business partnership, which I'll refer to as 'F', is unhappy that Lloyds Bank PLC won't write off its loan.

F's complaint is brought to this service by one its partners, whom I'll refer to as 'Mr M'.

What happened

F had three loans with Lloyds. In April 2020, F successfully applied for six-month capital repayment holidays on all three loans, wherein F would only be required to pay the monthly interest that accrued on each loan for six months and not make any payment to reduce the capital balances.

In October 2020, after the six-month payment holiday ended, all three loans should have reverted to being on a capital and interest repayment basis. However, while two of F's loans did revert to that basis, one of the three loans did not, and so incorrectly remained on an interest only payment basis.

In June 2023, the fact that one of F's loan had incorrectly remained on an interest only payment basis was noticed by Lloyds who then contacted Mr M about it. Lloyds calculated that because F's loan had remained on an interest only payment basis longer than it should have, a total of £1,751.26 additional interest had been charged to the loan, which Lloyds then reimbursed to F's loan account.

Lloyds also calculated that because F hadn't been making capital repayments to the loan, it had missed a combined capital repayment amount of £20,386.96. Lloyds asked Mr M how F wanted to repay this underfunded capital. But Mr M felt that because it was Lloyds which had made the mistake of not reverting the loan back to capital and interest repayment, that Lloyds should write the underfunded capital balance off. Lloyds declined to do this, and so Mr M raised a complaint on F's behalf.

Lloyds responded to Mr M and confirmed it wasn't willing to write off the £20,386.96 underfunded capital amount. Mr M wasn't satisfied with Lloyds' response, so he referred F's complaint to this service.

One of our investigators looked at this complaint. But they didn't feel that Lloyds had acted unfairly in how they'd managed this situation and so didn't uphold the complaint. Mr M remained dissatisfied, so F's complaint was escalated to an ombudsman for a final decision.

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.

Having done so, I won't be upholding this complaint. This is because, ultimately, F have had the benefit of the £20,386.96 capital amount under consideration here, and so I feel that it's both fair and reasonable that F should be expected to pay that amount back.

This is in line with the loan agreement that the partners of F accepted when taking the loan on F's behalf. And I don't agree with Mr M's contention that because Lloyds didn't revert the payment basis of the loan back to capital and interest when it should have done, that F's obligation to repay the full capital amount it borrowed, along with agreed interest, is reduced or diminished in any way.

Furthermore, it seems evident that Mr M was aware in 2020 that Lloyds hadn't reverted the loan back to the correct payment basis but didn't contact Lloyds to question this. I say this because when Lloyds spoke with Mr M about the matter in 2023, they record that Mr M told them that he had noticed that the payments for this one loan remained on an interest only basis but that he had waited for Lloyds to contact him about it.

Given that Mr M appears to have been aware of Lloyds mistake, then I feel that he could and reasonably should have reached out to Lloyds to notify them or question them about the issue. And I feel that it's disingenuous of Mr M to now expect Lloyds to make a write-off, given that he had recognised the bank's mistake, but not brought it to their attention.

Conversely, if Mr M denies that he was aware that the payment basis of the loan hadn't reverted to capital and interest as it should have done, then I feel that he reasonably should have been aware of this fact. This is because it's a loan account holder's responsibility to monitor the ongoing position of their loan, including that payments are being to it in line with the loan agreement. And in consideration of this point I feel that the position I outlined above regarding Mr M's responsibility to have reached out to Lloyds, and F's responsibility to repay the money it borrowed and has had the benefit of, still apply.

Of course, this isn't to say that Lloyds didn't make a mistake by not reverting the loan to the correct payment basis when they should have. But it is to confirm, as stated above, that I'm satisfied that Lloyds' mistake in this regard doesn't affect F's responsibility and obligation to repay in full the loan in accordance with the terms of the loan.

Given that Lloyds made a mistake, it would generally be expected by this service that Lloyds would take the corrective action necessary to return F to the position it should be in – as much as is reasonably possible – had the mistake never occurred.

I think that Lloyds have done that here. I say this because Lloyds have calculated how much additional interest F have paid on the loan because of their mistake and then reimbursed that amount to F. And Lloyds have also tried to engage with F to work out an affordable way for F to repay the underfunded capital amount that it still fairly owes.

I therefore encourage Mr M to engage with Lloyds and come to a repayment agreement with them for the £20,386.96. And it must be noted that if F doesn't come to a reasonable arrangement with Lloyds regarding this amount, then speaking generally I wouldn't consider it unfair if Lloyds chose to begin collections and recoveries action against F.

Mr M has said that dealing with this matter has caused him considerable stress and inconvenience. But as discussed above, I feel that Mr M could and reasonably should have mitigated against any trouble and frustration he may have incurred here by notifying Lloyds that the payment basis for the loan in question hadn't reverted when it should have. And because of this I don't feel that Lloyds should fairly be instructed to pay any amount of compensation to Mr M regarding this point.

Finally, Mr M has indicated that he has doubts about the accuracy of Lloyds corrective interest reimbursement calculations. However, Lloyds have provided their calculations to this service, and I haven't seen anything to suggest that they might be incorrect. It's also notable that after these calculations were sent to Mr M that he hasn't raised any objection to them.

All of which means that I won't be upholding this complaint or instructing Lloyds to take any further or alternative action here. I trust that Mr M will understand, given all that I've explained, why I've made the final decision that I have.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask F to accept or reject my decision before 24 October 2024.

Paul Cooper
Ombudsman