

The complaint

M, a partnership, complains that Lloyds Bank PLC set up a business loan incorrectly.

The complaint has been brought to us by M's partners, who I'll refer to as Mr and Mrs P.

What happened

In 2017 M took out a loan with Lloyds. The loan was for more than £1m and was to be repayable over a 19-year period by 228 monthly instalments. The interest rate was variable.

In July 2023 M enquired about changing the loan to a fixed interest rate. It then came to light that, contrary to what it said in the loan agreement and statements, Lloyds had accidentally set the loan up to be repaid over 24 years instead of 19 years. As a result, the outstanding capital hadn't reduced as much as it would have done, and M had paid more interest than it would have done if the loan had been set up correctly.

In its final response to the complaint, Lloyds offered to pay Mr and Mrs P £1,000 to apologise for the mistake, and offered two alternative solutions:

Option 1 – to refund the overcharged interest of more than £10,000 and amend the term of the loan to 19 years. This would have resulted in increased monthly repayments.

Option 2 – to credit the loan with the amount needed to put the capital balance where it would have been if the loan had been correctly scheduled, keep M's monthly payments unchanged, but leave the loan to run for the remainder of the 24 years.

But shortly after M brought the complaint to this service, Lloyds told us that it had intended to say that it would both refund the overpaid interest *and* credit the loan with the underfunded capital. It explained that if that were to happen, keeping the 24-year term wouldn't be an option, as the refund calculations were based on the loan running for 19 years. The result would be that the remaining term would be reduced and monthly repayments would increase.

However, Lloyds said that it was concerned that the new monthly repayments wouldn't be sustainable for M. So it said that as an alternative, it would be willing to keep the expiry date of September 2041 and offer Mr and Mrs P £2,500 to recognise the distress and inconvenience they'd experienced.

Mr and Mrs P weren't happy with Lloyds' proposed solutions. They said they'd like the loan to finish at the end of the agreed 19-year term without the monthly repayments increasing. They explained that due to Mr P's health, they'd had to employ extra labour and didn't have spare money to increase their payments. Mr P's health also meant that they didn't want to have to repay the loan over a longer period. They also believed that Lloyds should offer more compensation.

After discussion with our investigator, Lloyds offered to pay Mr and Mrs P the £2,500

compensation it had previously offered and keep the 24-year loan term but only charge interest on the loan for 19 years.

Lloyds offered to achieve this by refunding the interest of £140,785.72 that M had paid in the first five years of the loan, and using it to reduce the outstanding balance. The loan would then run until the end of the 24-year term, but the effect would be that M would only pay interest for a total of 19 years. And since M would be paying interest on a lower capital balance, it would pay less interest overall than it would have done (subject to future changes in interest rates). M would also have the option of making additional capital repayments to reduce the term if it found itself able to do so. Lloyds said that it would require a new loan agreement to be signed, to reflect the 24-year term.

Mr and Mrs P remained unhappy with Lloyds's offer, so the complaint's been passed to me.

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 don't consider that I can fairly require Lloyds to do more than it's already offered to do in response to the complaint.

Under Lloyds' most recent offer, the capital balance outstanding on the loan would not just be very significantly lower than it currently is, but it would be tens of thousands of pounds lower than it would have been at this stage even if Lloyds hadn't made the mistake with the term of the loan. Going forward, interest on the reduced outstanding balance would be correspondingly lower too.

I have sympathy with Mr and Mrs P regarding Mr P's health situation, and I can understand why they're keen to avoid a situation in which repayments on the loan have to continue beyond the original 19-year term. But I'm satisfied that Lloyds took Mr and Mrs P's personal circumstances into account when deciding what it was willing to offer to put things right, and I consider its most recent offer in this case to have been generous.

It's true that as things stand, M will need to make monthly payments for five years after the original planned end date of the loan. But M's monthly repayments will be lower than they would have been if the loan had been set up correctly.

While the interest rate for the loan remains variable, M has the freedom to make overpayments without penalty if it is able to do so. Any such overpayments will reduce the outstanding term, bringing it back closer to the original end date. I acknowledge that this might not be possible for M. But given that what Lloyds has offered to do would put M in a substantially better position than it would have been in if the loan had been set up correctly at the outset, I don't consider that it would be fair or reasonable of me to require Lloyds to do more.

Putting things right

To put things right Lloyds should do the following, as it has offered to do:

- On receipt of a signed loan agreement reflecting the 24-year term, refund the £140,785.72 interest that M paid during the first five years of the loan and apply it to reduce the outstanding balance;
- Pay Mr and Mrs P £2,500 to apologise for the trouble and upset that they have

experienced as a result of Lloyds' mistake.

My final decision

My final decision is that I uphold this complaint. I require Lloyds Bank PLC to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 7 August 2024.

Juliet Collins
Ombudsman