

## The complaint

Miss P complains that Bank of Ireland (UK) Plc (BOI) hasn't refunded her the interest she believes was due to her when she settled her loan account early.

## What happened

Miss P received a loan from BOI in July 2019. The loan was for £15,000 with £4,202.94 front loaded interest. Her monthly payments were £355.61 to be paid over a term of 54 months.

BOI said that during August 2019 a fraud block was applied to the account for additional verification which caused her first two monthly repayments to be missed. The fraud block was identified and removed during October 2019 and the account was re-aged to remove the arrears. It said this moved the two monthly repayments from the start of the loan to the end of the loan term, so it created a shortfall balance of £711.22. BOI said nothing negative was recorded and the repayments were just moved.

In November 2019, Miss P made a payment due date change from 30th to the 1st of the month which meant the 30 November 2019 payment was received, but there was no payment during December 2019 and the next payment was on 1 January 2020. This caused another shortfall amount of £355.61 for December 2019 which was automatically added to the end of the loan term. BOI said this was standard practice.

In 2020 Miss P requested a three-month payment holiday due to Covid19 and so the direct debit instalments due for 1 July, 1 August and 1 September were added to the end of her loan term. BOI said there were no other missed payments.

In September 2022 Miss P complained to BOI. She had requested an early settlement figure and queried why there was no interest rebate on the figure given, as there was still 20 months left on her agreement.

In its final response BOI said the rebate had been calculated using a formula prescribed by the Consumer Credit (Early Settlement) Regulations 2004. It said the quote was correct and that it was unable to offer an alternative quote for repayment of the loan. It recognised that the level of service Miss P received wasn't satisfactory and it offered Miss P £50 in compensation.

Miss P wasn't satisfied and brought her complaint to this service. She said it hadn't been explained to her when BOI had offered the payment holiday that this would result in her not being able to get any interest rebate should she choose to settle her loan early. She said the email she received also stated that no extra interest will be charged. She said she'd been sent a payment breakdown of how all payments are covering the interest and the actual loan right up to the end of the loan term. Our investigator concluded that BOI hadn't made any errors with the rebate calculation but he felt it could have explained more clearly why Miss P wasn't eligible for a rebate. So he recommended that BOI pay Miss P an extra £100 in compensation for any distress and inconvenience this may have caused. Miss P didn't agree and asked for a decision from an ombudsman. She said she wasn't responsible for the first two months fraud block. She also said there should be an interest rebate and queried how

the change in payment date affected the rebate.

I issued a provisional decision on 27 November 2023. I said:

*As per his correspondence to Miss P our investigator is correct in that we don't provide an auditing service. Nor do we calculate early settlement figures. My role is to decide whether BOI has acted fairly when it dealt with Miss P's request to settle her loan. It may be useful to explain that all loans, including Miss P's, are based on an 'amortisation' schedule. What that means is that each instalment is made up of some of the amount originally borrowed (also known as "capital" or "principal") and some of the interest and charges.*

*The loan repayments may be for a fixed amount but in the earlier stages of the loan term, more of each monthly payment goes on paying the interest – because it's calculated based on the outstanding balance. And that's going to be higher at the start. As the borrower progresses through the loan term, and the remaining balance reduces, more of their payment goes on paying off the principal element of that balance. As instalments are paid, the principal balance reduces, and so does the amount of interest.*

*If the borrower repays all or some of a loan early, they may not have to pay the interest they would need to pay in the future if the loan ran for its full term. This saving is called a rebate. When a borrower asks for an early settlement for a loan that is regulated by the Consumer Credit Act, as is the case here, a lender will apply a mathematical formula which is set out in the Consumer Credit (Early Settlement) Regulations 2004. This formula takes into account a number of variables including how many payments have been made, the interest rate and the borrowers payment history.*

*Miss P has provided copies of her schedule of payments which break down each monthly payment to the end of the loan term into the principal being paid back and the interest. She said this shows interest is added month by month which shows an interest rebate is due even if missed payments are added on to the end.*

*Although I accept it appears interest is calculated monthly on Miss P's payment schedule the interest on Miss P's loan was added at the start and this is clearly noted on the credit agreement. The payment schedule illustrates how each payment is made up. At several moments during the course of the first half of her loan Miss P did not make payments. The first two payments were added to the end of the loan due to the account being fraud blocked.*

*One payment was added to the end of the loan because Miss P changed the payment date. And then in 2020 she had a three-month Covid 19 payment break. These 6 payments are added to the end of the loan. All of these "missed" payments had a higher level of interest because they were in the earlier stages of the loan term, compared to the latter payments Miss P would have made had she carried the loan through to term.*

*Section 5 of the regulations allows a lender to calculate a settlement for (and valid until) a date 28 days after the request for a settlement figure was made. And interest would be charged for this 28-day period. Additionally, if the agreement in question has a term for longer than a year, like Miss P's agreement did, section 6 of the regulations allows the lender to defer the settlement date, for the purposes of calculating an interest rebate, by a further 30 days. Therefore the regulations permitted BOI to charge interest for a period of 58 days from the date of the*

settlement request.

Miss P signed a Fixed Sum Loan Agreement. In the information provided on the agreement it says:

*Early repayment: You can repay all or part of the credit borrowed under this agreement at any time. If you wish to make an early repayment please notify us... And paying off the amount you wish to repay (which may be reduced by a rebate).*

In the loan terms and conditions it says:

*"4.2 Where you take the steps listed in clause 4.1 above, the amount you owe us will be reduced by an amount equal to the sum of the amount paid and any statutory rebate, where applicable.*

So it should be noted that a rebate is not guaranteed.

*I've seen a copy of the calculation BOI sent to this service for the rebate. In summary, taking into account the variables I've stated above, the rebate is calculated as zero. The calculation also indicates the rebate that would be owed to Miss P had she made all payments as expected - £274.38.*

*In its explanation to this service BOI said at the point Miss P originally asked for the early settlement figure she had a payment shortfall of five payments. It said this becomes a shortfall against the original loan term and this has offset the interest rebate because these repayments would contain the highest amount of interest vs credit; as interest repaid is higher at beginning of term, as I've explained above. It said its past halfway through the loan so the calculation is made against the current balance. For the interest benefit, this would take into consideration all payment behaviour, negative or positive, in this case, negative. Miss P made up three payments from the payment holiday – this was posted with effective date of 7 November 2022 – BOI said this meant there was still a two payment shortfall hence there was no rebate. It said even if Miss P had made five payments effective on 7 November 2022 then there still wouldn't have been any rebate due to the difference between what the effective date of those payments would have been had they been paid on time and the effective date of the catch up payments.*

*It's not clear to me that this calculation is accurate. I note that it appears to only take account of five missed payments not six. The missed payment when Miss P changed her payment date isn't included. Miss P provided evidence that she took a payment break in 2020 yet the calculation appears to have accounted for them in 2021. It's possible that if these errors were corrected this might underestimate the final calculation – by this I mean re-confirm that no rebate is due. This would be because these missed payments were in fact earlier in the loan term than those that appear to have been used for the purpose of calculating a rebate.*

*In her response to our investigator's view Miss P said the two payments that weren't made at the start of the agreement due to the fraud block and added to the end were not her responsibility. So I asked BOI whether this was the case, and if so to recalculate the rebate if the loan was re-aged with those two fraud blocked payments not going at the end.*

*BOI responded by saying the fraud blocked payments were not Miss P's responsibility, these were applied in error and, it said, the bank did apologise for this.*

*It reworked the quotation as if the fraud blocked payments were collected at the start of the loan (as they should have been), with a recalculated rebate of £56.24.*

*I asked BOI for a simplified breakdown of the calculations that sets out clearly how the deferred payments have affected the interest. It responded that it had provided all the information. I also asked it to check there was no compound interest (interest on the principal sum plus interest). Although it didn't respond to this question I think it unlikely.*

*Even if the anomalies I've outlined above, if corrected, favour BOI and not Miss P, they have impacted my confidence in the accuracy of the overall final calculation. And I can't fairly say that BOI has acted reasonably.*

*BOI has recalculated the rebate and according to this Miss P is now due £56.24. Subject to any further information I might receive I think it should pay Miss P this interest rebate. BOI offered Miss P £50 in compensation. Our investigator recommended an additional £100. He said BOI could have explained and broken down the reasons why Miss P may not have been eligible for a rebate. He said the lack of clarity in the responses gives Miss P no confidence in the BOI's calculations. I concur with this view and go further - as I am unable to conclude that BOI has treated Miss P fairly with its calculation I consider it fair and reasonable that it pay her an additional £100 for the distress and inconvenience this has caused. This means a total compensation of £250.*

Both parties accepted my provisional 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.

As both parties have accepted my provisional decision I see no reason to depart from its conclusions.

### **Putting things right**

To put things right Bank of Ireland (UK) Plc must pay Miss P:

1. £56.24 interest rebate;
2. £50 compensation it offered (unless it has already done so);
3. £200 compensation for the distress and inconvenience caused to her.

### **My final decision**

My final decision is that I uphold this complaint and Bank of Ireland (UK) Plc must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 9 January 2024.

Maxine Sutton  
**Ombudsman**