

The complaint

Miss C complains that Shop Direct Finance Company Limited (SDFC) didn't treat her fairly when she experienced financial difficulties.

Miss C is represented by Mrs G, but for the purpose of this decision I have referred to Miss C throughout.

What happened

Miss C got into financial difficulties and after seeking advice from a debt advice service she was told to discuss her situation with SDFC and agree an informal payment arrangement. She contacted SDFC on several occasions but her offers of payments weren't accepted. Miss C says SDFC didn't explain clearly why her offers of payments were rejected and didn't acknowledge her vulnerability. Instead she kept being contacted to bring her account up to date. Miss C says that she was told her account would be passed to a debt collection agency which caused further anxiety as she didn't understand the consequences of this.

Miss C felt under pressure to repay the debt and took out a loan with another creditor. This was for £1,000 and she needed a further £200 to be paid to meet the required settlement offer. She says that SDFC were aware of her situation and that she had other debts yet still accepted the £1,000 which further increased her indebtedness.

SDFC issued a final response letter dated 9 October 2019 and a further final response letter dated 13 August 2020. In these letters it said that when Miss C called and made repayment offers it gathered financial details and as these showed on each occasion that she had a budget deficit it wouldn't have been responsible to set up a payment arrangement on her account. It says its advisers tried to explain why Miss C's repayment offers couldn't be accepted and tried to assist Miss C.

SDFC said Miss C called in May 2019 and a reduced settlement payment was discussed. Miss C offered £1,000 but it said this couldn't be accepted and a settlement figure of £1,200 was agreed. Its adviser asked Miss C about whether this payment would put her into further financial difficulties and Miss C said it wouldn't as she would borrow the money interest free from a family member. Miss C called on 6 June 2019 and said she could only pay £1,000 at that time. It was explained that the settlement offer would only be valid for 28 days and Miss C said she would pay the remaining £200 the next week. The £1,000 payment was accepted but Miss C then didn't make the additional payment.

SDFC said in its October 2019 letter, that given the issues Miss C had raised her account would be passed to its specialist team and that the administration and interest charges would be refunded as a gesture of goodwill from the time Miss C contacted it to explain her financial difficulties. Regarding the transfer of the debt, SDFC said that it was explained to Miss C that if this happened the third party company would contact her to agree a longer term repayment arrangement.

Our investigator thought that SDFC had treated Miss C positively and sympathetically by agreeing to freeze interest and charges on the account and referring Miss C to a debt advice

service. She didn't think that SDFC was wrong not to set up a payment arrangement given Miss C had a budget deficit. Regarding the full and final settlement, our investigator noted that this was Miss C's suggestion and that SDFC checked that the payments wouldn't put her in further financial difficulties. She noted that a token payment was discussed but it was said this could only be for six months.

Our investigator said that once SDFC was made aware of Miss C's mental health issues it transferred her account to its specialist team and actions were taken. She noted that since Miss C raised her complaint with this service SDFC had defaulted the debt, agreed not to sell it and was no longer chasing Miss C for the outstanding balance. However, she did think that SDFC could have explained the debt sale process better and the reasons why the payment arrangement offers were declined. Because of this she thought that Miss C should be paid £100 compensation.

Miss C didn't accept our investigator's view. She said SDFC didn't follow the guidance for dealing with a vulnerable consumer in financial difficulties and reiterated that adequate explanation wasn't provided as to why repayment offers were declined, a token payment not agreed and the consequences of a debt sale process. She says that the anxiety caused by the situation on the account and the calls received about bringing the account up to date meant she felt pressured to take on further debt. While the outstanding balance was no longer being chased, Miss C said that SDFC should also refund the £475 that was paid to settle the additional debt she took on to try to settle the account.

SDFC said that when Miss C made it aware of her mental health issues her account was referred to its specialist support team. It said the account was closed and default applied so that Miss C wasn't required to make any further repayments and was not being pursued although the debt was still valid. It said that this was adequate redress and that compensation wasn't warranted.

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.

This complaint is about how Miss C was treated after she contacted SDFC to explain she couldn't maintain the payments on her account. When a consumer contacts a creditor and lets them know they are experiencing financial difficulties we would expect the creditor to treat the consumer in a positive and sympathetic way.

I have listened to the calls that have been provided which took place between 19 February 2019 and 29 July 2019. The advisers did try to assist Miss C on the calls, and I can hear they treated her with sympathy when she was explaining her situation.

When Miss C called in February 2019, an income and expenditure assessment was carried out and as this showed Miss C had a budget deficit I find that SDFC acted responsibly by not setting up a payment plan at that time, as this could have resulted in Miss C being under further pressure to make payments when she may have struggled to pay other priority bills. At this time, SDFC placed Miss C's account on hold and referred her to a free debt advice service.

On the call on 6 March 2019, Miss C explained that she had spoken to the debt advice service and been told to come back to SDFC. She explained she was told about a debt relief order but said this wouldn't work for her. Her income and expenditure were assessed again but as she had a monthly deficit a payment plan couldn't be set up. She was referred back to the free debt advice service.

Up to this stage I think that Miss C was treated fairly. She hadn't said anything about her mental health issues, and I do not find that SDFC should have been aware of these. While Miss C had explained her financial situation, I find that SDFC had taken reasonable action by carrying out income and expenditure assessments and then referring her to the debt advice service.

Miss C then called SDFC late in March 2019 to say she was returning to work and wanted to discuss making payments towards her account. She was asked to call back, and I can see she made a further call on 11 May.

On 11 May call, Miss C is clearly anxious about the situation on her account and asks on more than one occasion what she can do. She is clearly trying to reduce the debt she has with SDFC and while I agree that SDFC shouldn't set up a payment plan if this is unaffordable (as it appeared to be for Miss C) I find it could have done more to assist her at this stage. Miss C was referred back to the debt advice service, but she makes it clear she has tried this more than once and that she keeps being told to come back to SDFC. While I appreciate Miss C hadn't said she was suffering from mental health issues, I think her comments and desperation to try to find a resolution should have raised concerns that she was becoming increasingly distressed by the situation. I think she sounded vulnerable on the call and I think it would have been reasonable to have sought further assistance for her at this time.

Miss C then asked about getting a reduced settlement amount for her account. This was Miss C's suggestion and SDFC checked that she wouldn't be increasing her financial difficulties by doing this. Miss C said the money would be borrowed from a family member and so no interest would be due. Miss C's initial offer of £1,000 wasn't acceptable but then an amount of £1,200 was agreed.

While I find that SDFC did try to understand whether the settlement payment would increase Miss C's financial difficulties, I think that it should have been concerned that Miss C seemed desperate to find a solution. When she made the payment of £1,000 I think it would have been reasonable to ask further questions to understand how she was going to make the additional £200 payment to ensure the full settlement was paid. Instead the £1,000 was accepted and Miss C agreed to make the further payment the following Monday. Unfortunately, this didn't happen, and the settlement offered expired.

Overall, I find that SDFC did try to assist Miss C when she explained her financial difficulties. Its advisers tried to work with her and carried out income and expenditure assessments. I think it was responsible not to provide payment plans when the assessments showed a budget deficit. I also acknowledge that a token monthly payment was discussed but it was said that this would only be for six months. I agree that this wouldn't be a long term solution for Miss C and that her circumstances weren't likely to change significantly in six months.

However, I think that further support should have been offered to Miss C to ensure she fully understood what would happen to her account if transferred to a third party and what the impact would be of the account defaulting. I think by the time of the call in May 2019, SDFC should have been concerned about Miss C's possible vulnerability as she was becoming increasingly distressed by not having a plan in place for her debt. I think this resulted in her suggesting the settlement payment and I think further options could have been explored at this time.

Miss C made the payment of £1,000 and this was her choice. Her account has now been defaulted and SDFC said it won't be chasing her for the outstanding debt, I find that this resolves part of Miss C's complaint. However, I do think that Miss C could have been

provided with better service in May when she was clearly getting distressed about not being able to repay the debt. As Miss C had explained she had tried the debt advice service, and this hadn't yielded any results I think SDFC could have taken further action to refer her to a specialist team at that time which may have been able to assist her. Because of this I agree with our investigator's recommendation of £100 compensation.

I understand the comment made about the refund of the £475 that had to be paid to settle the amount due to the other creditor. But as it was Miss C's choice to pay the £1,000 and SDFC had asked about the payment source, I do not find I can hold SDFC responsible for the costs she incurred doing this.

Putting things right

Shop Direct Finance Company Limited should pay Miss C £100 as compensation for not providing the service it should have when Miss C made it clear she wanted to make payments towards her debt.

My final decision

My final decision is that Shop Direct Finance Company Limited should take the actions set out above in settlement of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 21 April 2021.

Jane Archer
Ombudsman