

The complaint

Ms M complains that Shop Direct Finance Company Limited, trading as Littlewoods, didn't accept her offer of settlement for one of her accounts, when it did for the other.

What happened

Ms M had two accounts with Shop Direct. When she found herself having financial difficulties, she entered into repayment arrangements for her debts.

In 2016, an arrangement was agreed for her to pay £1 a month. She continued this into 2017 and it was to be reviewed in July 2018.

In May 2018, she offered Shop Direct a settlement figure for each of her accounts. Initially, they were both rejected. However, Shop Direct then agreed to accept the settlement figure on one account. At that stage her arrangement to pay £1 a month was still in place.

In August 2018, Ms M wrote to Shop Direct and sent it an income and expenditure form. She wanted to continue to pay £1 a month. But it said it wasn't able to set up another repayment arrangement for her.

Shop Direct said that arrangements were only set after finding out whether the customers circumstances had changed for the better. Ms M had told it that her circumstances hadn't changed so it was unable to help her further.

In March 2019, Ms M was able to offer to pay £6.28 a month towards her account. But Shop Direct then sent Ms M a default notice but she didn't receive this. Her account then defaulted in April 2019 and the ownership of her debt was sold onto a third party. Ms M was then able to agree a settlement with the third party.

Ms M complained as she said she hadn't received the default notice and had been told that her account wouldn't be sold on while she had an ongoing complaint. She couldn't understand why Shop Direct would accept a settlement offer on one of her accounts and not the other.

Shop Direct said that, at the time Ms M made her settlement offer for her account, it didn't meet the criteria. It said that it had sent Ms M the default notice and it had sold the debt onto the third party as Ms M hadn't made the payments requested on her arrangement. But Shop Direct said it had made a business decision to amend the date of Ms M's default to April 2016. It said it would arrange this and sent Ms M £50 for the distress and inconvenience she'd been caused by the matter.

One of our investigators looked into the complaint and said he didn't think Shop Direct had acted fairly. He said that he thought it was appropriate to backdate the date Ms M's account defaulted to April 2016, as it had told us that its processes hadn't been followed correctly. This is because it would agree a reduced repayment arrangement if this would clear the account arrears within 42 instalments as a longer term would be deemed excessive. This wouldn't have happened with Ms M's arrangement.

But he felt Shop Direct could've done more to provide Ms M with a better level of customer service. He said that because it hadn't followed its processes, Ms M had had to spend nearly five years making reduced payments and wasn't given the correct information as she was given the impression her debt wouldn't be sold while she had an active complaint. The investigator didn't think the £50 Shop Direct had paid Ms M recognised the trouble and upset she was caused, so he recommended it should pay her a further £250 in compensation. He said she had been prevented from moving forward with her life sooner because of Shop Direct's mistake.

Ms M said that she didn't want this money – she just wanted the default removed. She said she may have been able to borrow money from her parents if Shop Direct had made her aware of the default situation. She provided documents which she felt demonstrated that her parents had the funds to help her. Ms M said the default was stopping her make the life changes she wanted, and she felt her settlement offer should've been accepted in 2018.

Shop Direct said that the decision to backdate the default wasn't because it had made an error. It said it had taken into consideration how this type of account would be dealt with now. But it said that it agreed with the investigator's recommendation to offer Ms M £250 for her distress and inconvenience.

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've carefully reviewed all the information provided including the details Ms M has shared about her financial situation, and how her parents would have looked to help her with this. I can appreciate that this has been a difficult time for Ms M and do understand her reasons for wanting to resolve this matter for her future plans.

I agree with the investigator in that I think that Shop Direct could have communicated the position on Ms M's complaint more clearly to her. This may have helped her make different decisions or would at least given her a greater understanding of the status of her account. I say this because in May 2018, when she looked to make settlement offers on both of her accounts with Shop Direct, it was explained that her offers were less than it would accept. And yet then it accepted settlement on one of the accounts.

I've listened to the recording of the call that she then made to pay the agreed amount. Ms M said that she had to make a choice between the two accounts, as she was unable to meet the total amount Shop Direct has said that it would accept. So I can see why Ms M may have then looked for further clarification about why that offer was acceptable, when her other offer was not.

I appreciate that an agreement to accept a reduced payment for a debt is a matter for the business to decide. And Shop Direct didn't consider that Ms M's offer for the Littlewoods account was high enough, and that is a decision it's entitled to make. But I think the reasons why one offer was then accepted could have been more clearly explained.

In the call, Shop Direct's adviser refers to the repayment arrangement for the remaining account and says that this can be discussed at the time that ends. From this, I can understand why Ms M may have believed that she would be able to continue with that arrangement, when she completed her income and expenditure form and sent this to Shop Direct.

However, Shop Direct then wouldn't agree to continue the arrangement because of the length of time it had been in place, and as it wasn't likely to result in Ms M being in a better or different position. Her payments were unlikely to reduce the debt in a significant way, or to prevent her account from defaulting. So I don't necessarily think it was unfair when Ms M had told it that her circumstances hadn't changed significantly, and it was unlikely that continuing the plan would help Ms M towards reducing her debt.

After reviewing her account when addressing her complaint, Shop Direct has said it will backdate the default placed on Ms M's account to April 2016. It said that if the correct process had been followed in March 2016, Ms M would not be able to clear the account in arrears within a reasonable time and so the account would have defaulted at that time.

And I think this gives a reasonable resolution to Ms M's complaint. Although I appreciate that she would like the default removed entirely, I think it would have been appropriate for Shop Direct to have looked to take this action in 2016 when she made it aware of her financial situation. If there's been an arrangement that a consumer may pay reduced amounts towards a debt then that'll be reflected in their credit report. But a repayment arrangement doesn't mean that the contractual repayments due under the original agreement have changed, or that the account wouldn't default because of this.

I think that backdating the default is an appropriate way of recognising that this may have helped Ms M far earlier. This would mean that this default would remain on her credit file until April 2022. Although I can understand that Ms M's parents will have wanted to help her at the time to repay the debt if they could have or were aware that she needed that help; it is difficult to say with any certainty that Ms M would have taken this action or would have been able to avoid the arrears on her account.

Shop Direct has agreed with the investigator's recommendation that it should pay Ms M a further £250 to recognise the distress and inconvenience that she was caused through the communication about her account. Overall, I think that this, along with the action of backdating the default to April 2016, represents a fair resolution to her complaint.

My final decision

My decision is that Shop Direct Finance Company Limited, trading as Littlewoods should pay Ms M £250, and arrange to backdate the default on her account to April 2016, as it has already offered to do.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 19 August 2021.

Cathy Bovan
Ombudsman