

The complaint

Mr A is unhappy that Volkswagen Financial Services (UK) Limited trading as Audi Financial Services ("VWFS") reported adverse information to credit reference agencies ("CRA's") about his hire agreement. He said this resulted in a declined mortgage application.

What happened

Mr A acquired a car under a 36 month hire agreement with VWFS in March 2019.

In April 2020, Mr A requested a payment deferral. Whilst VWFS considered Mr A's application, it suspended his hire agreement and no payment was required for May 2020. It also granted Mr A a four month payment deferral and sent Mr A a modified hire agreement in July 2020. But Mr A told VWFS he was unhappy with the increased payments due under the modified agreement and asked it to extend the term of the agreement instead.

However, VWFS said it didn't think this was suitable for Mr A and so declined to do this. So Mr A said he no longer wanted the payment deferral, as he didn't accept the terms of the modified agreement.

Following this, Mr A contacted VWFS and complained it had reported adverse information to the CRA's.

VWFS issued its response to Mr A's complaint and said whilst it considered Mr A's application for a payment deferral, this caused adverse information to be reported to CRA's in May 2020. It said it had removed this information and offered Mr A £150 compensation as a gesture of goodwill. However, it acknowledged that Mr A had rejected this offer.

Unhappy with this, Mr A referred his complaint to our service and said as a result of the adverse information VWFS reported to CRA's, a mortgage application he made was declined. He said this added extra pressure and stress to him and caused a relapse in his mental health. And he said although the issue had been resolved after two months, he had to pay a larger APR on his mortgage.

Our investigator looked into the complaint and said he thought the offer VWFS had made in relation to the information it had reported to the CRA's was fair. But he thought that VWFS should have granted Mr A a payment deferral and allowed him to add the arrears at the end of the agreement. He recommended that VWFS pay Mr A a further £150 for the distress and inconvenience caused.

VWFS said it did offer Mr A a payment deferral which he declined. And it said it told Mr A his payments would increase regardless of whether the term was increased or not. However, it said it would agree to pay Mr A £150 as per the investigator's recommendations to draw the matter to a close. Mr A also disagreed and said VWFS should also pay for cost of the increase in interest on his mortgage and the additional arrangements fees, as a result of not being able to get the mortgage he wanted to.

Our investigator asked Mr A to provide further information to show that the terms of his mortgage only changed as a result of the information VWFS reported to the CRA's. Mr A said an independent broker had already confirmed this. He said VWFS left him without funds to support himself and his partner as he was expected to pay around £1,500 in a short time. And he says he lost out on a deal from a mortgage provider that wanted less deposit, had a

lower interest rate, and no arrangement fees. He said the mortgage provider couldn't offer this deal as a result of the information reported to the CRA's by VWFS.

As Mr A remains unhappy, the complaint has been passed to me to decide.

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.

Mr A complains about a hire agreement. Entering into consumer credit contracts such as this is a regulated activity, so I'm satisfied I can consider Mr A's complaint against VWFS.

What I need to decide here is, whether VWFS should have extended the term of Mr A's agreement when he requested help as a result of Covid-19 and whether it acted fairly when it reported adverse information to the CRA's in May 2020. If I think it acted unfairly, I need to decide whether it needs to do anything to put things right.

The Financial Conduct Authority (FCA) issued temporary guidance on 24 April 2020, that came into effect on 27 April 2020, about customers who were faced with payment difficulties as a result of Covid-19. This allowed financial businesses such as VWFS to grant a three-month payment deferral to people like Mr A. The guidance said that *"a firm should grant the customer a payment deferral for 3 months unless the firm determines (acting reasonably) that it is obviously not in the customer's interests to do so."* The guidance also said that *"firms should not report a worsening arrears status on the customer's credit file during the payment deferral period."*

I don't think VWFS did anything wrong when it accepted the payment deferral and told Mr A he'd need to pay increased payments. This is because the FCA's guidance said that, *"Firms are not prevented from continuing to charge interest under regulated credit agreements during a deferral period"*. So VWFS was entitled to charge further interest if Mr A agreed to the terms of the payment deferral.

VWFS provided Mr A with two months of breathing space in May and June 2020. So it informally allowed Mr A to not be required to make payments for two months under his hire agreement. And it was in July 2020 that it told Mr A about the terms of the modified agreement. But Mr A disagreed with these terms and instead he said that VWFS should extend the term of his hire agreement instead. But VWFS declined to do this.

Having thought about this, I think VWFS could have applied the further guidance the FCA issued in July 2020. This said:

"1.35 Where a customer can resume full repayments after the initial payment deferral, but is unable to pay the deferred amounts immediately and in full, the firm should allow them to repay the deferred amounts over the remaining term of the agreement or allow a longer period for repayment. The firm should consider what is most in the customer's interests."

1.36 For example, where appropriate, the firm could lengthen the time during which the customer is allowed to make repayments by:

- *the length of the initial payment deferral or*
- *a period of time that enables the customer to keep the same contractual payments they had prior to the payment deferral."*

Mr A said when VWFS didn't agree to extend the agreement, he made a lump sum payment by credit card to cover the arrears. Whilst Mr A did pay this amount immediately and in full, this amount was paid through credit, not through savings. So he had to take out further borrowing to make the repayments.

VWFS hasn't provided any information to confirm why it didn't allow Mr A to extend his agreement. In light of this, I haven't seen enough information to suggest that VWFS

considered what was most in Mr A's interest when it didn't allow him to extend his agreement. And so, I haven't seen enough to make me think that it wasn't right for VWFS to provide Mr A with an extended period of time to make any deferred payments.

Mr A says as a result of VWFS not agreeing to this, he was required to pay the deferred amount of £1,690.41 immediately. He said he paid this using his credit card as he didn't have the funds available. He said he then had to keep taking out further credit cards which had 0% interest offers to avoid making the deferred payment straight away.

Having thought about this, I'm satisfied VWFS caused Mr A distress and inconvenience when it didn't provide him with an extended period of time to make the deferred payments. Our investigator suggested VWFS pay Mr A an additional £150 to reflect the issues with the payment deferral. I think this amount is fair and reasonable in the circumstances.

When VWFS looked into whether it would grant Mr A a payment deferral, it incorrectly reported arrears to Mr A's credit file for May 2020. VWFS accepts it did this in error and became aware of this in early July 2020. Mr A says four missed payments were reported but hasn't provided supporting information to show this. However, there's no dispute that some adverse information was reported by VWFS to the CRA's when it shouldn't have been.

On 17 July 2020, system notes show VWFS updated the CRA's and asked them to remove the adverse information it had reported. However, VWFS noted that one of the CRA's had a delay in removing the information and only updated Mr A's credit file on 4 August 2020. VWFS offered Mr A £150 for the distress caused.

Mr A says as a result of the incorrect information reported, he was declined for the mortgage he wanted and was offered a mortgage with less favourable terms. He accepted this mortgage but says he'd like VWFS to pay for the financial loss he has suffered and will suffer as a result of accepting the mortgage with the less favourable terms.

The initial mortgage illustration was produced on 8 July 2020. Mr A has provided an email dated 4 August 2020 from the broker to say that the lender declined the application due to adverse credit issues identified on Mr A's credit file. The second mortgage illustration is dated 19 August 2020.

Having considered what's happened here, I don't think VWFS need to do anything further. I'll explain why.

The mortgage illustration explains there is no obligation for the mortgage lender to grant Mr A a mortgage. The email from the broker says the lender hasn't granted the mortgage due to adverse credit issues on Mr A's credit file. However, it doesn't confirm what these adverse credit issues are - and the email is from the broker rather than the lender. A lender can decline a lending application for a number of reasons. In this case, Mr A hasn't provided supporting information from the lender to explain that the only reason Mr A wasn't granted the mortgage was due to the information reported by VWFS. And he hasn't provided information from his credit file.

But even if Mr A did provide this supporting information, the final response letter VWFS sent to Mr A on 17 July 2020 confirmed it would remove the adverse information it had reported to the CRA's. And it did this. But one of the CRA's didn't update Mr A's credit file until 4 August 2020. This was on the same day the mortgage broker sent the email confirming the initial application had been declined. This email urged Mr A to resolve the CRA issues. But at this point, the information reported by VWFS had been removed. The email also said the broker would be appealing the decision. A further illustration was produced on 19 August 2020, which is 15 days after the credit files had been updated.

In this case, I don't think Mr A has provided enough information to show VWFS was the sole reason for the mortgage lender declining his initial application. And even if he did, I still don't think VWFS need to do anything further because VWFS had already confirmed in writing it would be removing the information. This information was provided to Mr A to pass to the

broker to appeal the mortgage providers lending decision. Also, the mortgage illustration wasn't a guarantee from the mortgage lender to lend to Mr A. And it's not been confirmed that the lender would have approved Mr A's mortgage application, even if the information was removed by VWFS in advance of the application being made,

In addition, whilst I don't think VWFS should have reported the adverse information in the first place, the delay in removing the information from the credit file was caused as a result of one CRA having delays, rather than VWFS. So I think the £150 VWFS has offered Mr A is fair and reasonable in the circumstances given it reported adverse information to Mr A's credit file for around three months.

Overall, whilst I'm sorry to hear about the impact this has had to Mr A's health, I think the amount offered by VWFS, a total of £300, is fair and reasonable in the circumstances. It follows I don't think VWFS needs to do anything further.

My final decision

My final decision is that Volkswagen Financial Services (UK) Limited trading as Audi Financial Services ("VWFS") should pay Mr A the following if it hasn't already:

- £150 for not providing Mr A with an extended period of time to repay the arrears accrued as a result of Covid-19; and
- £150 for incorrectly reporting information to Mr A's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 24 June 2022.

Sonia Ahmed
Ombudsman