

The complaint

Mr L complains that Vanquis Bank Limited declined his payment deferral request.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

Mr L had a credit card with Vanquis. At the start of 2020, there were some missed payments. The arrears and full balance were cleared in May 2020.

In July 2020 Mr L contacted Vanquis after losing his job and applied for a payment deferral. At the time, Mr L's credit card had a credit limit of £500 and the outstanding balance was £549.90. Vanquis approved a three month payment deferral and confirmed the arrangement in writing.

In October 2020 Mr L contacted Vanquis again and asked it to agree another three month payment deferral. Vanquis declined the request because the outstanding balance exceeded Mr L's credit limit. Vanquis discussed Mr L's circumstances with him, including whether he was up to date with priority bills. Vanquis says it wanted to see whether it could provide other support to Mr L in place of the payment deferral. But no agreement was reached and Mr V's account balance increased when interest and charges were applied.

Mr L complained but Vanquis didn't agree it had made any errors. Vanquis has confirmed no payments were made from October 2020 so Mr L's card was later closed and a default was recorded on his credit file.

Mr L referred his complaint to this service and it was passed to an investigator. They thought Vanquis had dealt with Mr L's complaint fairly so didn't ask it to do anything else. Mr L asked to appeal and said Vanquis had failed to follow industry guidelines by applying interest to his credit card. Mr L also said Vanquis had failed to offer an affordable payment plan and closed his credit card despite his ongoing complaint.

What I've provisionally decided – and why

I've considered all the available evidence and argument is fair and reasonable in the circumstances of this complaint.

I understand Mr L had lost his job and wanted to reach an agreement with Vanquis to give him some breathing space. The July 2020 payment deferral was agreed, but it didn't stop interest accruing on Mr L's credit card debt. When Mr L requested the second deferral, he told Vanquis he was still out of work. At the time, Mr L's credit limit was £500 but the outstanding balance had gone up to £568.69.

Vanquis declined Mr L's second payment deferral because the balance was over the agreed credit limit. But, I think it's reasonable to note that Mr L's balance was over the credit limit when he originally applied for a payment deferral in July 2020. So I can

understand why Mr L is unhappy his request was declined three months later in similar circumstances.

I've looked at the Financial Conduct Authority (FCA) guidance about deferrals. It says businesses shouldn't offer a payment deferral that isn't in the customer's best interests. The guidance also says a deferral shouldn't be approved if the customer is already experiencing financial difficulties that aren't connected with the pandemic. The deferral guidance provided by the FCA says the process is intended to be used on a temporary basis and businesses can decide to decline a request and offer other assistance instead.

I understand Mr L feels Vanquis should've approved a second payment deferral. But the information I've seen indicates his circumstances weren't suitable for a payment deferral in July 2020. In my view, Vanquis should've taken that opportunity to try and review Mr L's circumstances and considered offering a greater level of forbearance.

FCA guidance on forbearance where a customer is in arrears gives a range of options available to the business. Considering Mr L's circumstances, I think Vanquis should've considered waiving interest following his call in July 2020 rather than approving a deferral application which had the effect of increasing the outstanding balance. At this point, Mr L's account balance had already gone over the credit limit, so his credit card was technically in arrears. In my view, it should've been reasonably clear to Vanquis that approving a payment deferral that meant a further three months' interest were added to the outstanding balance wasn't the right option for Mr L. I think the way Vanquis handled Mr L's account made matters worse, which ultimately undermines the purpose of the FCA's guidelines.

Vanquis attempted to carry out an assessment of Mr L's circumstances after his second deferral application was turned down in October 2020. I note Vanquis asked Mr L about priority bills and was told he was in arrears with a utility supplier. Vanquis says Mr L ended the phone call when he was asked for information about whether he could afford to pay his utility arrears and make a payment towards his credit card. I think Vanquis was trying to get a clearer understanding of Mr L's circumstances and whether he was able to afford repayments. It's the approach I think Vanquis should've taken in July 2020, instead of approving the payment deferral.

The effect of approving the first payment deferral delayed the point at which Vanquis stopped applying interest and closed Mr L's account. In July 2020 Mr L's outstanding balance was £549.90 but when the account was closed the balance had increased to £646.56. In my view, Vanquis unfairly applied interest on balances over £549.90. As a result, I intend to uphold Mr L's complaint and tell Vanquis to refund all interest and fees applied to balances over £549.90.

I also think the approach taken by Vanquis delayed the closure of Mr L's credit card and default. Had Vanquis started its collections process in July 2020, I think would've closed Mr L's account by December 2020. That means the default it recorded in April 2021 will remain on Mr L's credit file for longer. So I also intend to tell Vanquis to backdate the default to December 2020.

I invited both parties to respond with any additional information they wanted me to consider before made my final decision.

We didn't hear back from Mr L. Vanquis responded and said:

- Its process allowed it to offer a payment holiday where customers were no more than one payment in arrears*

- The July 2020 statement was issued prior to the payment freeze application Mr L made. It showed no payment had been made during the previous charging cycle. That impacted the outstanding balance so it exceeded the agreed credit limit.
- Vanquis felt Mr L's financial difficulties were short term in nature and that a payment holiday, granted under the FCA Payment Deferral Guidance, was a better option than forbearance

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 reviewed Vanquis' response to my provisional decision and relooked at the information we have on file. Whilst I understand Vanquis' standard approach meant it had the option of approving a payment holiday for customers who were in arrears, I'm not persuaded that's fair in Mr L's case.

Vanquis' response says Mr L's credit card payment hadn't been made and that the outstanding balance exceeded the agreed credit limit when it agreed a payment holiday. I think Vanquis should've considered Mr L's specific circumstances. I looked at all the available information again, but I remain of the view that it should've been reasonably clear to Vanquis that a payment holiday in July 2020 wasn't the right option for Mr L. In my view, the approval of the payment holiday had the effect of increasing the final outstanding balance and lengthening the process of closing Mr L's account.

I've considered Vanquis' response but haven't been persuaded to change my view of Mr L's complaint. I still think Mr L's complaint should be upheld, for the same reasons.

My final decision

My decision is that I uphold Mr L's complaint and direct Vanquis Bank Limited to settle as follows:

- Refund all interest and charges applied to Mr L's credit card above balances of £549.90
- Backdate default to December 2020

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 1 April 2022.

Marco Manente
Ombudsman