DRN-3343133

The complaint

Mr T complains that Target Servicing Limited refused him a coronavirus payment deferral. And he complains that it has recorded incorrect information about arrears on his secured loan to the credit reference agencies.

What happened

Mr T has a secured loan, which has been in place for many years. While the loan was with the original lender, Mr T experienced financial difficulties and fell into arrears. He agreed a payment arrangement with the lender to pay more than his contractual payment to reduce the arrears.

Mr T has been making his payments now for a number of years, including paying extra each month to reduce the historic arrears.

Mr T said that the original lender stopped reporting anything about the loan to his credit file in around 2013.

Mr T's loan was sold on to another lender more recently. The new lender is not a regulated firm, and has appointed Target to manage the loan on its behalf. As the regulated entity managing the loan, Target is therefore responsible for this complaint.

Mr T says he was notified in 2019 that his loan would once again be reported to the credit reference agencies. This began in July 2019 – and it was wrongly reported that he missed payments in July and August 2019.

In 2020, following the coronavirus pandemic, Mr T requested a payment deferral because his household income had been affected while his wife, who is self-employed, couldn't work.

Target granted a payment arrangement, initially for two months. Mr T says it reported to his credit file that he had missed payments, and recorded four missed payments even though he only took a three month deferral.

Mr T complains about how Target has reported the loan to his credit file. He says it should not have reported missed payments in July and August 2019, because he did not miss those payments. It should not report missed payments in 2020 because he should have been on an agreed payment deferral. And, he says, it's not fair to report his account as being in arrears generally when his financial problems are long in the past and he's been overpaying for more than seven years.

Our investigator thought that Target should have allowed Mr T to take a payment deferral and recorded it as such – not as missed payments – on his credit file. She said it should pay him £100 compensation.

Target didn't agree. It said that as he was in arrears at the time, Mr T wasn't eligible for a payment deferral. It offered him a zero payment arrangement instead – but was entitled to record the payments as missed on his credit file.

Mr T said that it wasn't fair that Target was reporting arrears at all. He had last missed a payment – other than the payment deferral – over seven years ago. Because the previous lender had stopped reporting anything, and Target had only re-started in 2019, it looked like he was in arrears and missing payments recently. That wasn't a fair impression to give.

As no agreement could be reached, the complaint comes to me for a final decision to be made. I reached a different outcome to the investigator, so I issued a provisional decision to give both parties the chance for further comment before I made a final decision.

My provisional decision

I issued a provisional decision to set out my thinking on the case. I said:

I understand Mr T's frustration that this loan appears on his credit file at all – or, at least, that it does so showing that the loan is not up to date. The previous lender stopped reporting in 2013; by starting again in 2019, Target is putting his credit file in a worse position than it would otherwise be.

But I don't think it's unreasonable for the loan to be reported on his credit file. It still exists; Mr T is still paying it, and so it's fair that it's recorded. He's had the benefit of it not being reported between 2013 and 2019, but that doesn't mean it's not fair for a new lender to take over and start reporting again.

However, when it does report, Target should do so fairly and accurately. In my view, it hasn't.

I've looked at the copy of his credit file Mr T has provided, as generated by him in February 2021. It doesn't show missed payments in July and August 2019, as Mr T said.

Reporting starts in June 2019. The record between then and January 2021 is:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	2											
2020	AR	2	4	4	4	3	AR	R	AR	AR	AR	AR
2019						3	3	AR	AR	AR	AR	AR

"AR" means there's an agreed arrangement in place; a number means there is no arrangement, and Mr T is in arrears by that number of monthly payments.

I don't think this is fair reporting by Target.

It's reasonable to show that Mr T is in an arrangement and the loan is not up to date. That's accurate; although he hasn't missed any payments for several years, he's only overpaying by around £20 a month, and hasn't caught up with all the missed payments yet. So he's in arrears – albeit historic – and clearing them by arrangement.

But it's not reasonable to show "3" rather than "AR" in 2019, or "2" in February 2020 and January 2021.

There was an arrangement in place between Mr T and the previous lender for many years, by which Mr T would pay £225 per month as his monthly payment and a contribution to the arrears. Mr T has done that.

When it took over the loan, it's not unreasonable for the new lender to check that arrangement is still appropriate, or even whether Mr T can increase the amount he's paying. And to review that annually. Having done so, Target agreed the previous arrangement could stay in place – which was fair.

But it's not reasonable to show that there was *no* arrangement in place, or to report that Mr T wasn't managing his loan in an agreed way, while those reviews were carried out.

In my view, those months should be corrected to show an arrangement – on the report from this agency that would show "AR" (though each agency uses slightly different codes, the general principle that an arrangement is recorded is the same). Target should amend Mr T's credit file to show that he was in an arrangement in all those months.

As for the payment deferral, I don't think Target treated Mr T fairly there either. It quoted extracts from the regulator's guidance for consumers to the investigator. But what it should have considered was the detailed guidance for firms.

As that guidance made clear, arrears were not a barrier to a payment arrangement. It might not always be in a customer's best interests to grant a payment deferral to a customer in arrears where other forms of assistance might be more suitable. But I don't think this is such a case. Mr T was making his payments and had done so for years. While he was in arrears, that was not reflective of current financial difficulties, but of long-past problems. I see no reason why a payment deferral would not have been appropriate for Mr T or would not have been in his best interests.

In those circumstances, I don't think it was fair for Target to give Mr T a zero payment arrangement for two months, later extended to three, rather than a covid payment deferral for three months. The effect is exactly the same – Mr T makes no payments during that period, by arrangement – but the difference is that under the regulator's guidance, a payment deferral should not be reported to Mr T's credit file to show a worsening position.

I've seen on its notes that Target recognises that now, and has given Mr T a backdated payment deferral rather than a zero payment arrangement, and re-calculated his future contractual payments accordingly. It's therefore surprising that in doing so it didn't recognise the need to correct his credit file at the same time.

In fact, even if Target was right in March 2020 that it should have granted a zero payment arrangement rather than a payment deferral – which, as I've said, I don't think it was – it still didn't report to Mr T's credit file properly even then. A zero payment arrangement is still a payment arrangement, and therefore should have been reported as such to the credit reference agencies – not as missed payments with no arrangement. On the example credit file Mr T has given us, it should always have shown "AR", rather than "4, 4, 4, 3", whether Target treated it as a zero payment arrangement or a payment deferral.

To put things right, Target should correct Mr T's credit file with all the credit reference agencies. It should amend the records to show that Mr T has been in a payment arrangement continually since reporting re-started in 2019.

Since our investigator recommended £100 compensation, Mr T has provided further evidence. He's been trying to take out a new mortgage, but as evidence he's provided from his broker shows, that’s simply not been possible because his credit files appears to show he's missed payments and broken arrangements.

I can’t say for certain that if Target had recorded to his credit file properly Mr T would have been able to re-mortgage – there are many other things a lender will need to take into account. Some lenders will not be willing to lend where there’s a payment arrangement as well, though others will. But I do think that the errors on his file made it more likely that Mr broker told him there was no point in even exploring a re-mortgage. I’ve seen the whole credit file, and there aren’t any other concerning issues on it. So I’m satisfied that the broker’s concerns related to Target’s errors rather than some other credit issue.

Even so, there may have been other reasons why Mr T would not have been able to get a mortgage even if his broker had not had to advise him there was no point even applying because of the missed payments. So I can’t say there’s any financial loss. But I do think the incorrect entries Target has put on his file, and its refusal to consider a payment deferral in March 2020, have caused Mr T significant distress and inconvenience. I think compensation of £350 is fair in all the circumstances.

Finally, given Mr T has been making the payments under the agreed arrangement for many years and is not showing signs of current financial difficulty, I suggest Target reconsiders whether it’s necessary to maintain the position of arrears and arrangement, or whether the remaining arrears can simply be capitalised and a new monthly payment agreed that will result in Mr T clearing the balance by the end of the term.

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.

In response to my provisional decision, Mr T confirmed that he had recently been able to move to another lender and had redeemed this loan. But in doing so, he had to go to a specialist lender and pay a higher interest rate than he might otherwise have done. He wanted me to reconsider compensating him for this higher interest.

Target confirmed that it had amended Mr T’s credit file. And it agreed the compensation I had suggested. It also confirmed that the loan was now redeemed.

Putting things right

I’ve thought carefully again about this case. Now the loan has been redeemed, there’s no need for capitalisation. So that part of my provisional decision falls away. Target accepted, and Mr T had no further points to make about, the £350 compensation.

That leaves as the final matter the question of whether it’s fair to ask Target to compensate Mr T for having to pay a high rate of interest to his new lender. I’ve considered this again. But I don’t think it is.

In the first place, I don’t know what rate Mr T might have been able to get elsewhere to compare this rate to – there’s no comparison rate to compensate him for the difference in.

More importantly, I’m not persuaded that but for the errors Target made in this complaint, Mr T would have been able to go to a more mainstream lender with a lower interest rate. Even if his credit file was correct all along, it would always have shown “AR” – that he was in arrears and repaying them by arrangement. That would always have limited the choice of lenders available to him and I’m not persuaded therefore that the outcome would have been any different – I think it’s likely his arrears history would always have limited him to a specialist lender at a relatively high rate of interest.

My final decision

For the reasons I’ve given, my final decision is that I uphold this complaint. I intend to direct Target Servicing Limited to:

- Correct Mr T’s credit file with all the credit reference agencies so that it shows a continual payment arrangement since reporting re-started in 2019; and
- Pay Mr T £350 compensation.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr T to accept or reject my decision before 11 April 2022.

Simon Pugh
Ombudsman