

## The complaint

Mr G has complained that Mercedes-Benz Financial Services UK Limited trading as Mercedes-Benz Finance (MBFS) didn't treat him fairly when he asked for help.

## What happened

Mr G acquired a car under a four-year hire purchase agreement with MBFS in December 2018. The cash price of the car was around £42,000. And it was to be paid back with 48 payments of around £600 with an optional purchase payment of around £18,500.

It looks like Mr G lost his job in March 2020 due to Covid-19. And he contacted MBFS to ask for a payment deferral. In April, MBFS let Mr G know it may be able to provide him a three-month payment deferral. And that it would assess things later if his situation didn't improve. It told Mr G it would let him know how the deferral would affect his future payments.

MBFS sent Mr G a default notice in May 2020 as he was two payments behind. So Mr G contacted it to find out what was happening. He asked for a call back and said he was struggling to get through on the phone. He said he'd had to cancel his direct debit and was worried as no one was getting back to him.

It looks like MBFS contacted Mr G in June 2020 to provide a quote for a payment deferral. And it said it would look to spread the deferred payments across the rest of the term of the agreement. MBFS said if the quote was not affordable, extending the agreement would make it more costly, and that if Mr G couldn't afford the increase it could explain what options there were to end the agreement early.

Mr G spoke to MBFS to let it know he was still unemployed and that he needed a longer deferral. Mr G wanted to look at options for returning the car. And he asked MBFS to arrange a dealer to contact him so he could discuss changing cars.

It looks like MBFS wrote to and gave Mr G a settlement quote in July 2020. I think a default notice was sent to Mr G in September 2020. The next contact I can see was later that month and at the beginning of October 2020 when MBFS again sent further communication about a payment deferral. It also set out other options for Mr G to end the agreement early.

Mr G spoke to MBFS again in October 2020. It looks like he requested a reduced settlement figure, because he didn't think the amount MBFS was asking for was fair. But MBFS didn't agree. It said the agreement sets out what is owed and that it wasn't negotiable. And a complaint was raised.

MBFS sent a final response letter reiterating it wouldn't agree to extend the agreement by six months, in relation to a payment deferral. And that it wouldn't amend the settlement figure or reduce his monthly instalments.

Following on from this it looks like Mr G said he put his house on the market to cover the debt. And he wanted further forbearance until it was sold. MBFS asked Mr G to contact its collections team. But Mr G was unhappy the debt had been passed to debt collectors.

MBFS terminated the agreement in November 2020.

From what I understand Mr G still has the car but hasn't paid anything towards the agreement since March 2020.

One of our investigators looked into things and partially upheld the complaint. She didn't think MBFS had treated Mr G with forbearance and due consideration. And she didn't think MBFS had fairly followed the Financial Conduct Authority (FCA) guidance on Covid-19 for car finance firms. However, she didn't think MBFS were required to reduce Mr G's settlement figure. To resolve the complaint, our investigator recommended MBFS:

- Amend Mr G's credit file to show payments were deferred for six months.
- Amend the default on Mr G's credit file to be applied three months after the payment deferral had ended, so it reflects what should have happened.
- Agree a repayment plan for the arrears.
- Pay Mr G £400 compensation for the trouble and upset caused.

Mr G didn't think the compensation was sufficient. He was unhappy that he still would have to deal with MBFS in arranging to pay off the arrears. And he thought MBFS should do more to reduce what was owed.

MBFS didn't agree either. It said the purpose of a deferral was to allow time for the customer to review and prioritise their finances and come to a reasonable and affordable solution. It highlighted Mr G had not been able to make payment for longer than six months and that to defer the payments to the end of the contract might've put Mr G in a vulnerable situation. It also set out that Mr G never actually had a payment deferral because it was never formally put in place.

I sent a provisional decision that said:

*I first want to say I'm sorry to hear Mr G has been impacted by Covid-19. It can't have been easy. And I thank him for taking the time to bring the complaint to our service.*

*I also want to acknowledge that I've summarised the events of the complaint. I don't intend any discourtesy by this – it just reflects the informal nature of our service. I want to assure Mr G and MBFS that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this.*

*Mr G acquired the car under a regulated hire purchase agreement. And our service is able to deal with complaints relating to those sorts of agreements.*

*I think the key questions I need to ask myself are:*

1. *Did MBFS treat Mr G fairly when he asked for help?*
2. *If not, what does it need to do to put things right?*
3. *Are there grounds to direct MBFS to reduce the debt?*

*Did MBFS treat Mr G fairly when he asked for help?*

*Mr G says he lost his job around March 2020 as a result of Covid-19. In April 2020, the FCA issued Covid-19 guidance for car finance firms titled Motor finance agreements and coronavirus: temporary guidance for firms. This guidance introduced temporary measures for consumers whose finances had been impacted by Covid-19. The FCA states the*

*additional guidance builds on Principle 6 ('A firm must pay due regard to the interests of its customers and treat them fairly').*

*In relation to payment deferral periods – this guidance says:*

*Where a customer is already experiencing or reasonably expects to experience temporary payment difficulties as a result of circumstances relating to coronavirus, and wishes to receive a payment deferral, 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.*

*In determining whether a 3 month payment deferral is obviously not in customers' interests, firms should consider both customers' need for immediate temporary support and the longer-term effects of a payment deferral on the customer's situation, in particular the customer's ability to repay any accrued interest once the payment deferral ends, and over what period.*

*Seeing as though Mr G says he lost his job as a result of Covid-19 I think the guidance was intended for customers like him. Had it not been for Covid-19 it's likely Mr G would have continued paying his agreement without issue. It seems to me that the overall intention of the guidance was to provide quick, short-term assistance to customers in difficulty without the need for prolonged discussions or detailed additional checks before agreeing a payment deferral. So as a starting point, I think Mr G was eligible for a payment deferral. And MBFS were willing to consider granting him one.*

*I think things initially started to go wrong because MBFS weren't able to put the payment deferral in place straight away. This meant that Mr G started to receive arrears letters and a default notice. I imagine he was very worried about what was happening.*

*By the time MBFS did provide Mr G a quote for the deferral, it wanted him to clear the deferred payments over the rest of the term of the agreement – meaning his payment would have gone up. But Mr G couldn't afford to do that. I think it would've been fairer for MBFS to have provided him with the immediate support he needed.*

*Around this time the FCA issued further guidance that said, amongst other things, eligible customers could apply for a further three months' deferral. Mr G also requested MBFS arrange for a dealer to contact him so he could look at his options. But I can't see much happened until a default notice was sent in September 2020. To be fair to MBFS, I think partly this may have been down to it waiting to hear whether Mr G was going to look at his part exchange options off the back of the settlement figure he'd been sent. Shortly afterwards Mr G and MBFS started talking to each other again. MBFS gave Mr G the option to take a six-month deferral. It recommended he speak to a dealer about the possibility of a part exchange. And it also gave him other options for ending the agreement early.*

*So I don't agree that MBFS was not willing to offer any support. It laid out the options for Mr G and it was also willing to offer a deferral. But by not responding sooner, Mr G's agreement fell into arrears. And, in addition to being worried about losing his job, he would have been worried about not knowing what was happening with his MBFS agreement. So it would have been good to have seen MBFS respond to him sooner. But I'm mindful that this difficulty was against the backdrop of an unprecedented global pandemic which will have impacted MBFS' ability to provide its usual level of service.*

*I can understand that MBFS was looking to ensure any support it offered was sustainable. But I think it could have been more willing to look at other options for Mr G. His situation was that he asked for support when he was unable to make payments. But by the time the support was offered he was asked to commit to clearing the deferred payments across the*

rest of the term. But Mr G still wasn't back in work. So the option wasn't going to work for him. It would have been helpful had a conversation took place to really understand Mr G's individual circumstances. I don't think that happened in this particular case.

I think initially in June 2020 (when MBFS formally offered a deferral) it may have been fairer to have given Mr G the deferral for the preceding months and then had a conversation about payments going forward. The FCA guidance from July 2020 said eligible customers could have asked for a further three-month deferral. As it turned out, it wasn't until around late September 2020 when further meaningful conversations started to take place. By this point Mr G was already six payments behind. And he was again asked to agree to defer the payments on the basis of clearing the arrears over the rest of the term. This option may have worked well for many customers, but it looks like Mr G, at the least, may have been better off being given the option to pay back the deferred payments at a later date. The FCA guidance from later in 2020 says:

4.10 Where a customer can resume full repayments after a 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.

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

- the length of the payment deferrals given to the customer; or
- a period of time that enables the customer to keep the same contractual payments they had prior to the payment deferrals.

So in summary, I think MBFS would've been fairer to have at least explored other options in relation to the payment deferral with Mr G. Therefore, when taking all this into account, I think Mr G should have been given the option to defer for six months up to September 2020 without the requirement for him to agree to increase his subsequent payments. MBFS and Mr G may have then been able to discuss further tailored support once the deferral period ended. I also agree there were some delays here that have added to Mr G's worry and frustration over what was happening.

Therefore, I don't think MBFS did treat Mr G fairly when he asked for help.

#### Putting things right

I think MBFS should remove any adverse information recorded on Mr G's credit file from April to September 2020. Had he been given a deferral his credit file wouldn't have shown a worsening status. So I think that would be fair.

But matters are complicated because Mr G has told us he lost his job in April 2020 and obtained another role in July 2020 for far less money. He was made redundant again in November 2020 as a result of Covid-19. And it wasn't until March 2021 that he obtained another job. Mr G also had a lot of other things going on he had to deal with.

So what I have to bear in mind is that Mr G was unable to pay his agreement from April 2020. Even had he been given a deferral up to six months, he'd still have been in financial difficulty. And by not returning to work until March 2021, the agreement was always likely to have defaulted. So I don't find there are grounds to direct MBFS to remove the default. But, unlike our investigator, I don't find that MBFS should bring forward the default a few months because this will put Mr G in a worse position. So I'm not going to direct it to do that.

*Our investigator recommended £400 compensation. Mr G doesn't think this is sufficient. He feels strongly about this. I'm mindful that the main cause of the issue here is that Mr G was sadly in financial difficulties. But, as I've pointed out above, I think MBFS could have done more to treat Mr G fairly. I think it made things worse, at an already difficult time for Mr G. I don't think it was always as responsive as it could have been, even considering the impact of Covid-19. And I also think it could've sought to present Mr G with fairer options for him to consider relating to the payment deferral. Mr G was clearly, and understandably, very worried and frustrated that he wasn't getting the help he needed. So I think, on balance, I'm minded to agree with the investigator that £400 is broadly fair.*

#### Are there grounds to direct MBFS to reduce the debt?

*Mr G has not paid the agreement for some time now. So the arrears are significant. But while I can understand why he wants MBFS to reduce the debt, I don't find I have proper grounds to direct it to do so. There's nothing in the agreement that sets out MBFS is required to reduce the amount owed. And by taking the action above, MBFS will be giving Mr G the forbearance that the FCA has set out should be given to customers impacted by Covid-19. So, while I know Mr G will be disappointed, I'm not going to direct MBFS to reduce the debt.*

MBFS said it agreed with the outcome.

Mr G said his biggest issue was that he felt he needed to sell his house because of the lack of cooperation from MBFS. He reiterated he wasn't happy with how he was treated. He didn't think the compensation was sufficient. So he requested a reduction in his settlement figure.

#### **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.

As I said in my provisional decision, I think the main cause of the issue here is that Mr G was in financial difficulties. He's not paid MBFS for a long time, but he's continued to have the benefit of the use of the car. While I think there are things that could have gone better, I don't think I can fairly hold MBFS responsible for Mr G's decision to sell his home. I've said why I think the £400 compensation is fair in all the circumstances of the complaint. I've also set out the reasons why I don't have proper grounds to direct MBFS to reduce the debt.

Therefore, as neither party has provided anything materially new for me to consider, I see no reason to depart from the conclusions I reached in my provisional decision.

#### **My final decision**

My final decision is that Mercedes-Benz Financial Services UK Limited trading as Mercedes-Benz Finance should:

- Treat the missed payments from April up to and including September 2020 as deferred and remove adverse information from Mr G's credit file for this period.
- Pay Mr G £400 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 28 June 2022.

Simon Wingfield  
**Ombudsman**