

The complaint

Miss M complains that Bank of Scotland plc trading as Halifax (Halifax) caused her distress and inconvenience when it applied a default to her credit card account in 2018.

What happened

Miss M was struggling financially with debt in 2017. She had agreed payment plans with her creditors and was paying regular minimum payments. Halifax defaulted her credit card account in February 2018 and the account was passed to a third party to continue the administration of it. Miss M said the default caused her distress and even more financial difficulty, so she arranged a formal debt management plan.

She found it difficult to get a mortgage, obtain car finance and to pay all her bills. She says this damaged her reputation and affected her mental health. The default remained on her credit file until 2022 when Halifax told her the account had been defaulted in error in 2018. Miss M feels she has been unfairly treated and wants compensation for four years of financial and mental stress caused by the default on her credit file.

Miss M sent us a copy of her credit file which showed she did have other debts and other adverse information from 2017. She submitted case law to show that she should get around £1,500 as compensation for the distress she has suffered over four years.

Halifax accepted it had defaulted Miss M's credit account in error. It apologised to her for the error, it wrote off the remaining balance of £1,200.26 on the account and it paid her £150 for the distress and inconvenience caused. Halifax also contacted the credit reference agencies to remove the default from Miss M's credit file. Halifax said it was not solely responsible for Miss M's financial hardship as her credit file shows she had other debts leading up to 2018.

Our investigator said Halifax should increase the compensation to £300 for Miss M's distress and inconvenience from the day she found out the error had been made. Halifax agreed to do this.

Miss M disagreed with our investigator's view and asked for the matter to be looked at again.

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.

Having done so, I've decided the compensation which Halifax has agreed to pay is fair and reasonable in the circumstances. I understand Miss M will be disappointed by this, but I'll explain why I have made this decision.

Firstly, I've looked at the service given to Miss M. The key facts about the complaint aren't in dispute. Halifax has admitted it got things wrong when it registered a default on Miss M's credit file. So the only issue I must decide is whether Halifax's offer to put things right is fair and reasonable.

I think it's right that Halifax should compensate Miss M for the distress and inconvenience caused by their poor service. There's a number of factors here that I've taken into consideration when deciding what I think is a fair and reasonable level of compensation. I'll start by saying that I can understand why Miss M was upset when she found out there was a default incorrectly recorded on her credit file. I think it's important to add though, that while the error itself occurred in 2018 – when Halifax registered the default – it wasn't until 2022 that Miss M found out about the error. So I can't say the default error would have worried Miss M prior to 2022, as she wasn't yet aware of the issue. From the point Miss M found out, I accept this caused shock and worry for Miss M to know that Halifax had inadvertently applied a default to her account from 2018.

I can see Halifax has taken steps to remove the default from Miss M's credit file. I think it's important they've done this as it puts Miss M back in the position she would have been in had the error not occurred, and in this case, that means a credit file showing no default against this account. It also ensures the impact of the error doesn't continue.

Taking this all into account, I think the compensation of £300 which Halifax has offered to pay is fair and reasonable in the circumstances. I understand Miss M says she suffered financial hardship due to the default. I've looked into this, but I'm not persuaded Miss M's financial hardship was solely caused by Halifax. I say this because I have seen a copy of Miss M's credit file which shows she had other adverse information on her file from 2018 and other borrowing. So I can't say the default would have been the only factor taken into account by potential lenders. Lenders will have their own lending criteria and will consider a range of factors when deciding the terms on which they agree to lend to a customer and ultimately this is a commercial decision.

Miss M has referred to case law to support her argument for more compensation. However, the case referred to the credit file incorrectly showing that money was owed. In Miss M's complaint, she did owe money to Halifax on the credit card account – it was just that Halifax decided in 2022 they should not have registered the default and could have arranged for Miss M to pay the debt off in a different way. I also noted that as Halifax had written off the outstanding balance of the credit card debt, Miss M has already received the benefit of a higher level of compensation.

Putting things right

Halifax has done something wrong and I think it should put things right. Having looked at all the circumstances, I agree with Halifax's offer to settle the complaint for the total sum of £300, taking into account any money already paid to Miss M in relation to this complaint. I think this is fair and reasonable.

My final decision

My final decision is that Bank of Scotland plc has made an offer to settle this complaint which I think is fair and reasonable in all the circumstances.

I require Bank of Scotland plc to pay Miss M the sum of £300 taking into account any money already paid as compensation in relation to this complaint and clear her credit file of the default it recorded (if it hasn't already done so).

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 1 December 2022.

Amrit Mangra

Ombudsman