

The complaint

Mr F and Mrs F complained about how a payment arrangement to reduce the arrears on their joint mortgage with Southern Pacific Mortgage Limited ("SPML") showed on their credit files. Mr F said this had stopped him from buying a new home, and needed to be changed.

What happened

This complaint deals with a mortgage in joint names, and our service has Mrs F's permission to consider the issues raised here, but Mr F has communicated with us, so I'll refer to him throughout.

Mr F told us that this mortgage got into arrears in 2015, during a very difficult time when he was going through a divorce. He started making the monthly payments again in 2016, and he was also making regular overpayments to clear the arrears.

Mr F finished paying off the arrears in early 2020. The house was sold and the mortgage was redeemed at the end of 2020.

Mr F then wanted to buy another house, but discovered that, for all the time that he'd been paying down the arrears on his old mortgage, his mortgage company had been reporting the arrears to credit reference agencies. Mr F said it looked as if he hadn't paid his mortgage for several years. But he'd been paying without fail, since he entered into an arrangement to clear those arrears, and the payments had got larger over time. Mr F also said SPML had told him his credit file wouldn't be affected if he stuck to this agreement.

Mr F said he'd raised this with the credit reference agency ("CRA") which was reporting it, but the CRA said it was only reflecting what SPML told it, and it couldn't change that. And SPML said the information it had reported was correct.

Mr F said while SPML was trying to deal with this, it wrote to him with details of someone else's case. He said now SPML was blaming the CRA for what showed on his file, but he thought what had gone wrong was SPML's fault. He told us how this had impacted him, he'd lost his dream home and incurred significant costs through that, which he thought SPML should pay. But he said the most important thing was for his credit report to be corrected.

Mr F sent us his full credit file, which showed no issues with repayments other than on this mortgage. The mortgage record shows that for some years Mr F's payment was "6" – noted as being *"6 months late or 6 months in arrears"*.

SPML said the mortgage had fallen into arrears in 2015, and Mr F set up an arrangement to repay those arrears in August 2016. SPML said arrears are reported to the CRAs as a number, representing the total payment overdue, in monthly amounts. So 0 is up to date, 1 means that the arrears on the account add up to one contractual monthly payment, and so on. SPML said that if payment is being made every month but arrears are on the account, then those arrears will still be reported, at the relevant level.

SPML said it had looked at the reporting it had done during the time that the mortgage was

in arrears, and it thought it had been done correctly. So it wouldn't change this.

SPML apologised for sending Mr F a letter intended for someone else. It understood that this would have caused him concerns. It said it would like to pay him £25, to cover the cost of a two year registration with a service which may be able to help prevent possible identity theft.

SPML sent us a statement for this mortgage. That shows payments resumed on the mortgage in August 2016, and the amount paid since then has consistently been more than the contractual monthly payment, right up until the mortgage was redeemed in late 2020.

SPML also showed us samples of the quarterly mortgage statements it had issued. Those letters told Mr F that this mortgage was in arrears, and included the following warning –

“Due to the Payment Arrears on your account, your credit rating is adversely affected meaning that you may have difficulty obtaining credit. We are obliged to provide status details of your account on a monthly basis to the Credit Reference Agencies ('CRAs'). The information provided to the CRAs relating to your credit history will remain on your credit file for a period of six years.”

Our investigator didn't think this complaint should be upheld. He said SPML was making an accurate monthly report of the arrears on Mr F's mortgage. He sympathised with Mr F, who had been making his monthly payments, but said SPML didn't have to change the reporting.

Our investigator also said SPML had apologised about the mistake in correspondence. He didn't think that had caused any detriment to Mr F, so SPML didn't have to do more.

Mr F said he couldn't understand how this decision was reached. He hadn't missed any payments, and had consistently made the promised overpayments. He said if he'd chosen to ignore the arrears then his credit file would still have looked the same, so what incentive was there for people to try to repair things? He said his mortgage payments through this time were paid on time and without any defaults so his credit file should reflect this position.

Mr F wanted to stress that he had a payment plan agreed, and that SPML had told him the arrears wouldn't continue to impact his credit rating once the plan was in place, as long as he honoured the payments.

Mr F also said he'd had advice from a financial advisor that once the agreement was in place and mortgage payments are paid on time each month then this should not show as another default, although the account would show arrears.

Our investigator didn't change his mind. Mr F wanted his complaint to be considered by an ombudsman, so the case was passed to me for a final decision. And I then reached a provisional decision on this case.

My first provisional decision

I issued a provisional decision on this complaint and explained why I proposed to uphold it in part. This is what I said then:

I should say before I begin, that whilst I do think this complaint should be upheld, because I have identified a minor error in the credit reporting by SPML, I don't think that the arrears which are showing on Mr F's credit file are a mistake. So this decision may not produce the outcome that Mr F wants. I'll explain why I've reached this view.

Mr F said he'd sought advice on what his credit file should show, and he said that once he's in a payment arrangement, there shouldn't be any default. There is no default on Mr F's mortgage.

Mr F has also said that what he could see on his credit file was a series of missed payments. But that's not quite right either. Strictly speaking, what a mortgage company reports to CRAs isn't missed payments. The report it makes each month is a number between 0 and 6. A zero means the account is up to date. A number between 1 and 6 represents arrears which total one or more monthly payments. (Although arrears can obviously add up to more than six months of payments, reporting stops at 6.)

Often those arrears do happen because a payment has been missed, and that's why CRAs sometimes say that what's visible on a credit file is a "*missed payment*". But the CRA is responsible for how the information it receives is presented, SPML isn't. In this case, the CRA's report that Mr F shared with us made clear that the marks on Mr F's file are either missed payments or months of arrears. So, for quite some time while Mr F was making payments, his credit file shows him as six months in arrears. That's because he was still more than six months behind on his payments during this time.

The letters SPML has shown us do set out that the payment arrangement Mr F was in would affect his credit file. So I do think Mr F was warned that this would be the case. Because these marks weren't a mistake, and because I think SPML did warn Mr F about this, I don't think SPML has to remove the arrears it has reported from Mr F's credit file.

Mr F also said there wasn't any recognition of the fact that he had tried to tackle the problem. There is something else that mortgage companies report each month too, and that's whether the person who has arrears is in a payment arrangement. That is a way of making sure that when someone has got considerable arrears on their account, but they are working with the lender to tackle this, their credit file reflects the fact that they are addressing the problem.

I asked SPML what it had reported onto Mr F's credit file, and I can see that whilst it shows Mr F in a payment arrangement for most of the time between August 2016 and when the arrears were cleared, it hasn't included that payment arrangement marker for all the relevant months. And what SPML has told me makes me think not only that Mr F was in a payment arrangement for all of this time, but also that he stuck to it. So I think that SPML does need to amend its reporting, to show that Mr F was in a payment arrangement for all the months from August 2016 to March 2020, inclusive.

This is a joint mortgage. So when Mr F's credit file was affected by this mistake, Mrs F's credit file was also affected. For that reason, I will ask SPML to amend her credit file in the same way.

It's up to CRAs how they reflect this payment arrangement. Not all CRAs may make this visible to Mr F and Mrs F on their reports, but it should be visible to prospective lenders.

Mr F said that what SPML had done meant he couldn't get a mortgage, and it caused him to lose his dream house. But I've explained why I don't think SPML was wrong to report the arrears I can see on Mr F's credit file. Mr F can offer more evidence on this if he wishes. But my current view is that it is, unfortunately, very unlikely that even if the payment arrangement was properly recorded on his credit file, lenders would have reached a different view on granting him a mortgage at that time. So I'm sorry to tell Mr F that I don't think SPML has to pay compensation for the purchase costs that he lost, or for the stress of a house purchase falling through.

Mr F also received some misdirected correspondence from SPML. It has apologised for this, and, in case Mr F was concerned about the security of his personal data, it offered to cover the cost of Mr F enrolling for two years with a service which can help prevent identity theft. I think this was a fair and reasonable offer for SPML to make, and I don't think it has to do more than that to make up for this mistake.

I invited the parties to make any final points, if they wanted, before issuing my final decision. SPML replied, but Mr F and Mrs F didn't.

My second provisional decision

SMPL sent our service further evidence, and because of that, I changed my mind on one part of this complaint. So I issued a second provisional decision on this complaint and explained why I did propose to uphold it, but with a very slightly amended award. This is what I said then:

SMPL wrote to our service to say that Mr F wasn't in a payment arrangement for all of the time that I'd said it should show as a payment arrangement on his credit file. SMPL said the arrangements were cancelled and then a new arrangement agreed at a later date. It sent us what it said were example letters to show this. A letter dated 23 June 2018 said Mr F hadn't made payments as agreed so SMPL had cancelled his agreement. And a letter of 5 November 2018 said that Mr F had set up a new payment agreement.

I wrote to SMPL to say that this letter appeared to rely on a single missed payment, and this also appeared to be the single missed payment which was visible on the payment history, throughout the time when I'd suggested amendment to the credit files of Mr F and Mrs F. I asked SMPL to send me details of each time that the payment arrangement lapsed, if SMPL wanted me to take into account other times when that happened.

SMPL said the primary purpose of the letter was to let the customer know the arrangement had failed, rather than highlighting any single payment. SMPL said it had located a letter showing the arrangement started in August 2016, and couldn't find any further letters. So SMPL thought the credit files for Mr F and Mrs F should reflect them being in a payment arrangement from then (assuming records went back that far). And a new arrangement was set following the letter dated November 2018.

SMPL also wanted to clarify that it wouldn't be appropriate to record an arrangement flag once the arrears on the account were no longer being reported. So it said that any arrangement should stop before March 2020, when they were no longer in arrears.

Mr F and Mrs F haven't replied to our service.

I do think it's appropriate to amend my proposed award in this case a little, to reflect what SMPL has told us. It's reasonable for SMPL to have removed the payment

arrangement in June 2018, when Mr F's direct debit payment failed. And it's also reasonable for SMPL to ask Mr F to get back in touch, before it would reinstate this arrangement. It has now shown that he did this by 5 November 2018, when it wrote to him to confirm the new arrangement.

So I propose that his credit file, and that of Mrs F, should be updated to show them both in a payment arrangement from August 2016 to June 2018, inclusive.

SMPL says that it reinstated the arrangement in November 2018, but it appears not to have reported an arrangement for this month. I think it should report a further payment arrangement from November 2018 (not December 2018, as currently appears) until arrears cease to be reported onto their credit files, in 2020.

SMPL said it couldn't show an arrangement for March 2020, because it wasn't reporting arrears then. But the information it sent us suggests it did report 1 in March 2020. So there appears to be some confusion here, possibly because credit files usually report in the month following any changes on the account. So, however SPML achieves this, I think the second payment arrangement should run from November 2018 until arrears cease to be reported onto Mr F and Mrs F's credit files, in 2020.

I invited the parties to make any final points, if they wanted, before issuing my final decision.

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 F and Mrs F didn't reply to my second provisional decision. SPML did respond to say it had received the decision, but suggesting it may not reply within the deadline I had given. I wrote to SPML to clarify, and extend the deadline somewhat, but no response has been received within the revised timescale. I do think it's appropriate now to finalise this decision.

Neither side offered any further evidence or argument in response to my second provisional decision, and I haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that Southern Pacific Mortgage Company must amend its credit file reporting for Mr F and Mrs F, to show that each was in a payment arrangement for this mortgage, from August 2016 to November 2018, inclusive. And it must also amend their credit files to show that each was then in a second payment arrangement from November 2018 until arrears cease to be reported onto their credit files, in 2020.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F and Mr F to accept or reject my decision before 21 October 2022.

Esther Absalom-Gough

Ombudsman