

The complaint

Mr H complains that Sainsbury's Bank Plc sent him arrears letters and falsely reported that he was in arrears to credit reference agencies

What happened

Mr H had a mortgage with Sainsbury's Bank. In July 2021 Mr H made an overpayment to his account. The bank enquired about the source of funds and Mr H complained that Sainsbury's would already have that information on file. Then in September Sainsbury's sent Mr H an arrears letter saying that he was in arrears of £2,000. Sainsbury's sent a further similar letter dated 1 October. Mr H wanted to contact the bank but there was a problem as the number was incorrect on the letter. Mr H never missed a payment and made a number of overpayments that year.

When Mr H did get through, having explained the situation he then asked for an assurance that he had not been charged fees, paid an incorrect interest amount and that the bank had not reported the arrears to any credit reference agencies. Sainsbury's responded in their letter dated 16 November where they admitted to charging Mr H fees, the wrong interest amount and that they had reported his account to those agencies. Sainsbury's made an offer of £100 compensation. Mr H wrote back refusing the offer and requested a copy of the relevant correspondence pursuant to GDPR. Sainsbury's maintained its position and Mr H replied to their letter dated 15 December on 30 December 2021.

Sainsbury's says that it received a lump sum overpayment of £5,000 from Mr H on 1 September 2021. But on 9 September 2021 the payment was reversed on the account and then only £3,000 of the payment reapplied with the system showing an incorrect arrears position of £2,000. The bank says that this error was identified by the Credit Management Department on 17 September and the money reapplied to the account on 12 October 2021. Sainsbury's says that it reworked the account to ensure the correct amount of interest was paid on the account. As the arrears was still showing on 30 September, the bank reported this to the Credit Reference Agencies and a late fee applied to the account which was later reversed. Sainsbury's said it was removing the arrears marker on Mr H's credit file and offered Mr H £100 for the poor service he received.

Our investigator's view

Our investigator thought that the offer from the bank was fair and didn't recommend that this complaint should be upheld as he didn't feel that in general the bank had treated Mr H unfairly. Mr H disagreed and asked for a review.

My provisional findings

As my view of this case differed from that of our investigator, I issued my provisional decision in the following terms. I said

"This complaint arose following Mr H making an overpayment of £5,000 to his mortgage. Sainsbury's asked for proof of funds and Mr H objected. I can't say that Sainsbury's request

was unreasonable or imputed guilt of being involved in money laundering to Mr H or put too onerous a burden on him. I don't uphold that part of the complaint.

That said, I find that Sainsbury's handling of the £5,000 overpayment constituted very poor customer service. For some unknown reason the payment of £5,000 created a £2,000 arrears on the account. Despite knowing that there was an error, Sainsbury's sent out two arrears letters. The letter of 20 September 2021 brusquely tells Mr H "you owe us £2,000" when he was in credit with the bank. Again, despite knowing there was an error and Mr H wasn't in arrears, it reported the arrears to the credit reference agencies. The arrears letter had an incorrect phone number for Mr H to phone. I would have thought that if the bank realised that a customer's account was erroneously recorded as in arrears, there should have been a priority to rectify it swiftly so that the credit reference agencies weren't given information that was inaccurate but that didn't happen here.

I've no doubt that this would have been very annoying for Mr H. It would have been disturbing getting not one but a second arrears letter after Sainsbury's realised it had made an error. I recognise that this would have been a blow to Mr H's confidence in Sainsbury's ability to handle an overpayment if it sparked an arrears letter. I also recognise that it must have been disappointing to know that even after Sainsbury's knew that Mr H was not in arrears that it managed to tell the credit reference agencies that he was. It would have been distressful to know that an unwarranted credit marker had appeared on his account. So, my intention is to uphold this complaint.

I have to consider whether Mr H suffered any financial loss. Sainsbury's reversed the charges and interest that it charged and corrected the mortgage account. Mr H's credit file would have shown the account being in arrears for a period. Mr H redeemed his mortgage in December. In his email to us of 11 May 2022 following our investigator's review Mr H links that to the bad service. In his email to us of 31 May, Mr H says that "the remortgage was my original intention which was abandoned when I realised that Sainsbury's had negatively impacted on my credit score." Because Mr H links these events I've had to consider whether they were linked.

There are two issues. Did Sainsbury's actions cause Mr H to redeem the mortgage and did it prevent him getting a remortgage? I would have thought that if it was the cause of either of these that Mr H would have simply told Sainsbury's that directly in his letter of 30 November 2021 which presumably was just a few days before the redemption. But it's not mentioned there or in any correspondence I've seen by Mr H with the bank. The arrears may have affected Mr H's credit score during the period it was showing but I've no evidence that there was any credit application at this time and again Mr H doesn't mention in any correspondence to Sainsbury's at the time that he felt that he couldn't apply for a remortgage because of anything showing on his credit file. So, I've no evidence that Mr H suffered a financial loss because of this.

But Mr H should receive fair compensation for his distress and inconvenience. I consider the compensation offered by Sainsbury's inadequate and I have to consider the level of reasonable compensation for Mr H's distress and inconvenience. My role is not to punish a business for its errors but to provide a fair level of compensation to Mr H for the distress and inconvenience he has suffered. Using our guidelines, I accept that Sainsbury's actions caused Mr H considerable distress and upset and required an input of time from him to get things sorted. So, my view is that a fair level of compensation is £600."

I issued this Provisional Decision and invited further submissions from Mr H and from the bank. The bank responded to say that it accepted my decision but thought that the amount of compensation was quite generous and not in line with the customer impact since it was just a couple of letters and an incorrect credit file for a short period. Mr H didn't respond.

My decision

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I issued a provisional decision in this complaint. I note that the bank has accepted my decision but considers that I have over compensated Mr H for the impact of Sainsbury's error as it says it only involved 2 letters and an incorrect credit file for a short period. Mr H makes no further submission. I looked again at my decision and the level of compensation. I can assure Sainsbury's that the amount of compensation awarded wasn't some sort of punishment for the bank nor do I award compensation on the number of errors made. I have to look at the impact of the error on Mr H and our guidelines. I noted above:

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It seems to me that all this would have caused considerable distress and upset to Mr H over a period of time and under our guidelines I believe that the suggested award of compensation is appropriate. So, my view is that my provisional decision represents a fair outcome to this complaint.

Putting things right

Sainsbury's Bank Plc should pay Mr H £600.

My final decision

My decision is that I uphold this complaint and require Sainsbury's Bank Plc to pay Mr H compensation of £600.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 27 October 2022.

Gerard McManus
Ombudsman