

The complaint

Mr N complains that Shop Direct Finance Company Limited (trading as Very) didn't give him enough information about whether his account should be defaulted.

What happened

Mr N had an account with Very. Following losing his job, Mr N's account fell into arrears. Mr N had various discussions with Very and entered into a payment arrangement in September 2020. At this time, Very suggested Mr N allow it to default his account. It explained this would mean it would write off the balance and not chase Mr N for any further money. But Mr N said he wanted to protect his credit file and opted to enter into a payment plan for just under four years instead. Mr N remains on this payment plan to date.

Mr N says he has recently discovered that this payment plan will remain on his credit file for six years after he makes the last payment. He says, had Very made him aware of this at the time, he would've opted to have the account default as this would have gone from his credit file much sooner. He complained to Very about this.

Very didn't uphold the complaint so Mr N referred the complaint to our service. Our investigator thought Very should've defaulted Mr N's account in 2020. She didn't think it had given Mr N clear enough information to make an informed decision. She asked Very to rework Mr N's account to show it defaulting in 2020 and pay Mr N £150 compensation.

Very didn't agree. It said its process wasn't to tell Mr N that the arrangement would show on his credit file for longer than the arrangement. It said a default would've shown as more "derogatory" than missed payments. It also explained that it couldn't correct his credit file as this wouldn't be accurate.

As agreement couldn't be reached, the complaint was passed to me to consider. I issued a provisional decision on 26 September 2022 setting out why I intended to uphold this complaint and how I thought things should be put right. In this I said:

I've listened to the calls Mr N had with Very. The most relevant call is the one in September 2020. At this point Mr N was calling to set up a new payment plan. It's obvious from the call that Mr N was struggling with repayments. And it's clear Mr N's priority was to eventually repair his credit file so he may be able to obtain a mortgage to buy a house in the future. This is the reason Mr N was so desperate to avoid a default. Very did try to encourage Mr N to accept it defaulting his account. It also confirmed it wouldn't chase Mr N for the balance of a debt due to him being a vulnerable consumer.

However, I think Mr N chose not to default his account because of a mistaken belief on how a payment arrangement would be recorded on his credit file. From listening to the calls, I don't think Very gave Mr N enough information about how long a payment arrangement and the associated arrears would stay on his credit file for him to make an informed decision.

Very said it told Mr N that "The payment arrangement will show on your credit file with regards to the length of time you are on this arrangement". However, this isn't correct. The

account will show as in a payment arrangement for this period of time. However, as the account was in arrears, this would also continue to be reported. And record of both the payment arrangement and the arrears would remain for a further six-year period after the payment arrangement had ended and until the last months of arrears disappeared. Though the impact of this on Mr N's credit file would reduce over time. At one point during one of the calls with Very, Mr N says he understands that his credit file would show as clear in three years. This was also incorrect, but the advisor didn't explain this to Mr N or correct his understanding.

Had Very clearly set out that a default would not show on Mr N's credit file after six years, but the payment arrangement and arrears would show for six years from the last payment Mr N made, I think it's more likely than not Mr N would've chosen to default his account during the call in September 2020. I say this as this would've meant his credit file would be clear of any adverse information reported by Very sooner. And, he'd have the added benefit of his balance being written off. I'm aware Very says it's not its process to tell consumers this. And whilst this may be the case, I think, given Mr N's clear priority, it should've told him in this situation.

I acknowledge Very's point that a default will have a more significant effect on a credit file than just arrears. However, Mr N already had other defaults with other accounts he held elsewhere. It's clear his credit file was not in a good state. So, I think the overall effect would've been negligible. And Mr N's priority was to have nothing showing as adverse on his credit file as soon as possible. His account defaulting in 2020 would've achieved this.

Had Very defaulted the account in 2020, this would've disappeared from Mr N's credit file entirely six years after it had defaulted. This would've been around four years earlier than all record of his arrears and the payment arrangement which Mr N ultimately agreed to. If this had been clearly explained to Mr N, I think it's likely he would've agreed to the account being defaulted in 2020. So I currently think Very should put him back in this position.

I explained that to put matters right, my current thoughts were as follows:

I'm currently minded to tell Shop Direct Finance Company Limited to rework Mr N's account as if it had been defaulted in 2020. Very said when it spoke to Mr N that it would've written off the balance and not asked Mr N to repay this. So, it should also return any payments Mr N has made since this time with 8% simple interest added from the date the payment was made to the date it's paid to Mr N.

Very should amend Mr N's credit file to show that the account defaulted in September 2020 and remove any record of the arrears and payment arrangement after this.

Given that the balance will be written off, and this will be of benefit to Mr N, I'm not going to ask it to make a payment for the distress and inconvenience this matter has caused.

I invited both parties to provide any further responses to my provisional decision before 10 October 2022. Mr N didn't respond. Very responded and it agreed to backdate the default to September 2020. However, it didn't think that payments made since then should be refunded. It explained then when an account is defaulted, the debt still exists and payments can be made to it. If the default debt were cleared, it would show as satisfied. Very said that it was Mr N's choice not to have the default at the time and to continue making payments.

I've decided to proceed with 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.

I've considered the new points that Very has made. My reasons for upholding this complaint was that I didn't think Very had made it clear what would happen if Mr N did choose to have his account defaulted. I thought, had it done so, Mr N would've chosen to default the account. And I remain of this opinion for the reasons already given.

However, I do accept Very's point that the debt would still exist even if the account defaulted. I can't know whether Mr N would've continued to make payments to his account after the default. But I am aware that his priority was improving his credit file. And having the amount owing on the default, or it eventually showing as satisfied, would go some way towards achieving this. I also note that during his calls to Very, Mr N made a number of references to wanting to pay what he owed. So I don't think the continued payments he's made have been to his detriment. And based on this, I'm not going to ask Very to refund the payments he's made since September 2020 as I said I intended to in my provisional decision.

However, my provisional decision also explained that I wasn't going to make an award in relation to the distress and inconvenience this matter had caused due to the fact that I was asking Very to refund payments Mr N had made. As I am no longer requiring Very to do this, I've thought about this aspect again.

I think that by Very not explaining the impact of the arrangement plan instead of a default has caused Mr N unnecessary upset. He's since found out that his credit file will be affected for longer than he was led to believe would be the case and spent time trying to resolve this. Because of this, I think Very should make a payment of compensation to reflect the impact this has had. Our Investigator recommended £150, and I agree that this is a fair amount in the circumstances and it's in line with what I would've awarded.

Putting things right

I uphold this complaint and direct Shop Direct Finance Company Limited to:

- rework Mr N's account as if it had been defaulted in 2020. This should take into account any payments Mr N has made since.
- amend Mr N's credit file to show that the account defaulted in September 2020 and remove any record of the arrears and payment arrangement after this.
- Pay Mr N £150 for the distress and inconvenience this matter has caused.

My final decision

I uphold this complaint and require Shop Direct Finance Company Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 8 November 2022.

Rob Deadman
Ombudsman