

The complaint

Ms K complains that Ikano Bank AB (publ) ("Ikano") recorded a default on her credit file despite her maintaining repayments under an agreed payment plan.

Ms K is assisted in bringing her complaint by a relative. For simplicity, I'll refer to all comments as having been made by Ms K.

What happened

In or around June 2017, Ms K applied to Ikano for a loan of £14,000. Ikano assessed her application and agreed to provide the loan with monthly repayments of £346.55 over a term of 48 months.

Ms K maintained her repayments until around April 2020 when she contacted Ikano. She said her income had been adversely impacted by the effects of the global pandemic. Ikano agreed to defer Ms K's loan repayments for May, June and July 2020. Ikano agreed a further payment deferral for the months of August, September and October 2020.

Ikano wrote to Ms K in October 2020 to remind her that the deferral was due to end and normal repayments would resume in November 2020. Ms K was concerned as her financial situation hadn't yet improved. So, she contacted Ikano and asked if they'd agree to reduce her monthly repayments to £100. Ikano agreed to Ms K's request and confirmed this in a letter to her.

Ms K paid the reduced repayments each month as agreed. But in March 2021, she received a letter from Ikano informing her a default had been recorded on her credit file. Ms K didn't think this was right. She'd kept to their new agreement and never missed a payment. Ms K decided to call Ikano but wasn't able to get a satisfactory explanation. So, she raised a complaint with them. She said she'd repay the loan in full if Ikano removed the default they'd recorded.

Ikano responded to Ms K's complaint in a letter in June 2021. They said they'd issued a *"non-demanding default"* meaning she wouldn't have to immediately repay the arrears. They said they'd agreed a long-term plan and she wouldn't *incur any fees or credit adverse other than the default...detailed...in the letter*". Ikano said their letter confirming the plan had said a default would be issued once the agreement falls three payments behind its schedule. They didn't agree they'd done anything wrong.

Unhappy with Ikano's response, Ms K referred her complaint to this service. While our investigator considered Ms K's complaint, Ikano accepted they hadn't necessarily followed the Financial Conduct Authority's ("FCA") Tailored Support Guidance ("TSG") and should've contacted Ms K before the end of December 2020. Ikano offered compensation of £50 to reflect this but didn't think their mistake had a material impact upon what happened.

Our investigator didn't think Ikano had acted unfairly. They thought Ikano had complied with the requirements of the Consumer Credit Act 1974 ("CCA Act") by writing to Ms K in advance of issuing a default notice and recorded that on her credit file. Our investigator also thought Ikano's offer of £50 fairly reflected their failure to contact Ms K in December 2020 as part of the FCA's TSG.

Ms K didn't agree with our investigator's findings. So, her complaint has been passed to me to consider further. In doing so, I reached a different outcome to that of our investigator.

Because of that, I issued a provisional decision on 22 November 2022 – giving both Ms K and Ikano the opportunity to respond to my findings below, before I reached a final decision.

Ms K has pointed out that she maintained all her contractual repayments up until April 2020 when she requested a payment deferral. The information available confirms this is the case. So, up to that point, there were no arrears and Ikano had no reason to issue a default on her loan.

The payment deferrals agreed by Ikano in April and July 2020 were provided under the FCA's guidance issued to lenders in April 2020. The FCA's guidance explained what they expected from businesses during the exceptional circumstances arising out of the global pandemic.

The FCA asked businesses to consider payment deferrals of up to three months under regulated credit agreements where consumers were already experiencing or reasonably expected to experience temporary payment difficulties as a result of the pandemic. Further guidance was issued by the FCA in July 2020 extending these measures where consumers were still struggling due to the global pandemic. Businesses were advised to freeze or reduce their payments for a further three months. The FCA also said that *"firms should ensure that there is no negative impact on the consumer's credit file because of the payment deferrals"*. Ikano appear to have met all of the FCA's guidance here.

In September 2020, the FCA announced that the support scheme would change from the end of October 2020. From then, firms could continue to support customers in difficulty. But it was down to their discretion and customers' circumstances. Reporting to credit reference agencies was reintroduced for people that had already had the maximum payment deferrals.

In Ms K's case, once the payment deferrals had ended, she asked Ikano to consider a reduced payment plan offering £100 each month, which Ikano accepted. The FCA issued their TSG to business from October 2020 and updated it in November 2020. It said, *"Where a borrower offers an amount without being prompted, then this can be accepted without an Income and Expenditure assessment, but the firm should check this is still suitable after 60 days..."*. Ikano have agreed they didn't do that here and have offered compensation of £50 to reflect their failure.

The Information Commissioner's Office (ICO) published Principles for the Reporting of Arrears, arrangements and Defaults (PRAAD) at credit reference agencies in 2014. Principal 3 says, *"Should a temporary reduction in the payment amount be jointly agreed between you and your lender, this 'arrangement' will be recorded at the CRAs... Depending on the period and amount of the arrangement, arrears may continue to be reported... It is important that you are made aware, when such an arrangement is made and maintained, that it will show on your credit file and that whilst arrears may accrue and increase a default will not be recorded"*.

Principle 4 says, *"If an arrangement is agreed a default would not normally be registered unless the terms of that arrangement are broken"*.

In responding to Ms K's complaint, Ikano said, *"The notice of default is... a 'non-demanding default' where you aren't required to pay arrears in full by a certain date to avoid your account being sold to a specialist debt purchaser, you are instead on a Long-Term Plan which means your balance is frozen and you can pay as agreed until it is settled. During this plan, you won't incur and fees or credit adverse other than the default that was detailed in the letter you received"*.

I've considered the letter Ikano sent to Ms K in November 2020 confirming the payment plan. It said, *"After 3 missed contractual payments, we will issue a Notice of Default"*. Ms K believed Ikano's agreement to reduce her repayments was a formal

agreement and therefore contractual. I don't think Ikano's letter was sufficiently clear in explaining the implications of the payment plan agreed. Ms K interpreted Ikano's letter as meaning a Notice of Default would only be issued if she missed three of the new payments. And I can see why Ms K might think that.

I've also listened to a recording of Ms K's call to Ikano in October 2020 when the arrangement was agreed. Ikano said it would be recorded on Ms K's credit file with the start date and repayment amount. They also said, *"Once the balance is cleared, it will show as a satisfied default"*.

I realise this is Ikano's process, and it isn't the role of this service to ask them to alter their policies and procedures or impose improvements on the level of service offered to their customers. These aspects fall firmly within the remit of the regulator – in this case, the FCA. But it is our role to examine and decide whether Ikano have been fair and reasonable in the manner in which those policies and procedures are applied in the individual circumstances of Ms K's experience with them.

Ms K asked if she could reduce her repayments - Ikano agreed with little, if any, question. So, I think Ms K could reasonably believe that provided she maintained those repayments, a default notice wouldn't be issued or recorded on her credit file. This is supported by PRAAD which also suggests a default wouldn't ordinarily be recorded in these circumstances.

Ms K has suggested that had she known a default would be recorded, family members would have assisted her in repaying the amount owed in full so as to avoid the default. Unfortunately, this is no longer an option for her. Furthermore, due to the dispute about the default, Ms K stopped making repayments in April 2021. While I appreciate why Ms K did that here, I don't agree that a dispute about the default gives cause to stop making the repayments. The default may be in dispute, but the debt isn't.

In summary, I don't think Ikano have acted fairly here. I don't think it was made sufficiently clear to Ms K that the repayment plan agreed would result in a default. And I also think this appears to contradict PRAAD. So, I intend to reflect this in my decision.

Putting things right

I've thought carefully about what I think Ikano should do here. Ordinarily, I would ask them to remove the default and reinstate the agreed repayment plan, ensuring Ms K's circumstances are regularly reviewed under the FCA's TSG. But as Ms K hasn't made any repayments since April 2021, this in itself could give cause for a default. I'm also mindful that if the existing default is removed, any subsequent default would remain on Ms K's credit file for six years from that point. If the existing default is removed, Ms K should understand that a subsequent failure to meet agreed repayments may lead to a new default being recorded from that point.

I think two options should be offered to Ms K. Either:

- Ms K brings all payments she's missed under the repayment plan up to date at which point Ikano removes the default from her credit file. Ms K to then continue making payments under the repayment plan subject to reviews under the FCA's TSG; or
- Ikano to arrange a new sustainably affordable repayment plan with Ms K subject to reviews under the FCA's TSG. Ikano to remove the default from Ms K's credit file once the debt had been repaid in full, assuming no further default events.

I also appreciate that Ms K's experience will have undoubtedly caused her much distress and inconvenience. So, I intend to ask Ikano to pay compensation of £150 in addition to the £50 they've already offered – i.e. a total of £200.

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.

In response to my provisional decision, Ikano proposed a different resolution. They offered to recall Ms K's account from the debt management company they'd since sold it to. They would then write off any remaining balance and remove the default from her credit file. They also undertook to report the account as settled from the date Ms K accepts the offer and my decision and also remove any adverse data reported on her credit file from March 2021 onwards.

Ikano's revised offer was put to Ms K to consider. In response, Ms K accepted Ikano's offer to resolve her complaint. But she wanted Ikano to also remove any adverse information reported on her credit file prior to March 2021.

Ikano's offer appears substantially better than I'd originally proposed. And, I believe, more than Ms K had originally asked for. For that reason, I believe this is a fair outcome to Ms K's complaint.

Accepting her comments about any adverse information reported prior to March 2021, I don't propose to ask Ikano to remove anything else recorded. The arrangement agreed was for less than the originally contracted repayment. As I said in my provisional decision, PRAAD is clear *"when such an arrangement is made and maintained, that it will show on your credit file and that whilst arrears may accrue and increase a default will not be recorded"*.

For this reason, I don't believe it would be either fair or reasonable to insist Ikano remove any previous arrears resulting from the reduced payment plan.

As I believe Ikano's offer is fair here, I will uphold Ms K's complaint and reflect their offer in my final decision.

My final decision

For the reasons set out above, I uphold Ms K's complaint.

In line with their offer, I require Ikano Bank AB (publ) to:

- recall Ms K's account from the debt management company that purchased it; and
- write off any remaining balance owed on the account; and
- remove the default recorded on Ms K's credit file; and
- report the account as settled; and
- remove any other adverse data reported on Ms K's credit file from March 2021 onwards.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 9 February 2023.

Dave Morgan
Ombudsman