

The complaint

Mrs S complains that Foundation for Credit Counselling trading as Stepchange failed to make the impact of a Debt Management Plan (DMP) on future mortgage applications clear.

What happened

In 2017 Mrs S received debt advice from Stepchange. Mrs S has explained Stepchange recommended a DMP for her unsecured debt. In Stepchange's recommendation, it gave Mrs S information about her the DMP could impact her credit file. But Mrs S says there was no warning about how the DMP could affect her ability to secure a mortgage in the long term.

Mrs S made payments to clear the DMP debts and has explained that she's recently spoken with a mortgage advisor. Mrs S has told us the mortgage advisor explained that because she's been party to a DMP in the past she's unlikely to be able to secure a "high street" mortgage product in the future. As a result, the mortgage advisor said Mrs S would need to apply to specialist lenders at a higher rate of interest. Mrs S says this will lead to significantly higher mortgage costs over the full term.

Mrs S complained to Stepchange and it sent her a final response on 8 June 2023. Stepchange said each entry included in the DMP would remain on Mrs S' credit file for six years. Stepchange said the information it had given Mrs S when she took proceeded with the DMP explained how the DMP could affect her credit.

An investigator at this service looked at Mrs S' complaint. They thought Stepchange had dealt with Mrs S' case fairly and didn't ask it to do anything else.

Mrs S asked to appeal and explained she wasn't complaining about the temporary impact to her credit file. Mrs S said she's complaining that having had a DMP means that when she's completing a mortgage application she'll have to confirm this, whether or not it's still recorded on her credit file. And Mrs S says that the mortgage advisor she spoke with explained that she would be unable to secure a mainstream mortgage in the future. As Mrs S asked to appeal, her complaint has been passed to me to make a 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.

Mrs S has confirmed that her primary complaint is that Stepchange failed to make the long term impact of obtaining a DMP clear when she completed the application process. In particular, Mrs S has explained that Stepchange didn't notify her that even after traces of the DMP had been removed from her credit file after six years, it could still affect the sort of mortgage she may be able to obtain in the future.

I've looked at the information Stepchange included when the DMP advise was given. I can see that Stepchange did provide some guidance on how a DMP can impact a credit file and the ability to secure new credit whilst it's reported. But the information doesn't talk about

whether mortgage lenders will be willing to consider an application once the DMP has ended. I understand Mrs S has recently been told by a mortgage advisor that having a DMP in the past, even if no longer recorded on her credit file, will make high street mortgage products unavailable.

I take Mrs S' point and accept that the DMP may limit her mortgage options in the future. But I have to balance that against the fact Stepchange has no direct knowledge of mortgage lenders' criteria generally or how an application will be assessed. And whilst I note what Mrs S has told us about the mortgage advice she's received, I haven't seen anything that shows all mortgage lenders (mainstream or otherwise) have the same criteria in terms of historic or closed DMPs.

I also think it's fair to add that other levels of adverse credit like County Court Judgements (CCJs) are likely to have an impact on the ability to secure mainstream mortgages in the long term. And, across the industry, a CCJ is generally considered to be more serious than a DMP in terms of how lenders view applications. Here, Stepchange provided debt advice then contacted Mrs S' creditors to agree an affordable DMP in order to avoid more serious options like CCJs. And, from what I've seen, the DMP did what Stepchange said.

In Mrs S' complaint form she's told us she would've considered other options, like borrowing from family or friends to repay her debts, if the DMP had been correctly explained. But I wouldn't expect Stepchange to advise someone to borrow money from third parties to repay unsecured debts in their name. I'm satisfied that Stepchange's agreement to provide debt advice and work with Mrs S' creditors to set up a DMP was reasonable.

I've considered the information Stepchange gave Mrs S concerning the impact of the DMP on her credit file and I'm satisfied it was accurate. I appreciate Stepchange may not have given a detailed information about how a DMP would impact Mrs S' ability to secure a mortgage in the long term. But I'm satisfied that information isn't something Stepchange would have. And my view is Stepchange's advice to proceed with the DMP was reasonable in Mrs S' circumstances.

I'm sorry to disappoint Mrs S but, for the reasons I've given above, I haven't been persuaded to uphold her complaint.

My final decision

My decision is that I don't uphold Mrs S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 6 November 2023.

Marco Manente
Ombudsman