

The complaint

Mrs B is complaining about AvantCredit of UK, LLC because it didn't default her loan account when she fell behind with her repayments and entered a repayment plan. Because it instead continued to report to the credit reference agencies (CRAs) that she was in a repayment plan for some time after this, she believes her credit file has been affected for a longer period than was necessary.

What happened

In 2017, Mrs B took a loan for £4,000 with AvantCredit with a monthly repayment of £161. She soon began missing payments and sought advice from a debt charity that arranged a reduced payment plan.

According to the payment history AvantCredit has provided, Mrs B began making a reduced monthly payment in August 2017. These payments continued regularly for the most part, with payments missed only in November 2017 and January 2018. Payments were then made until August 2018, after which nothing was paid until December 2018. After that, the payments in January, February and March 2019 were also missed. Payments then continued monthly, albeit the amount was considerably reduced later in 2019 until the debt was sold early in 2020.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be upheld. My findings were as follows:

I don't agree with Mrs B's premise that the account should have been defaulted in 2017. I'm satisfied AvantCredit's decision not to do this was reasonable based on the information it had at the time. A default can have a severe and long-lasting affect on an individual's credit file and, if there was a chance the need for the payment arrangement would be temporary before Mrs B could get back on track, not defaulting and reporting the account as being in a payment arrangement would have been in her interests. Consequently, I wouldn't have expected AvantCredit to have defaulted the account while a repayment arrangement was in place, unless and until that agreement was broken.

While I'm satisfied AvantCredit was right not to default the account in 2017, there is a question of whether the payment arrangement was broken when Mrs B missed later payments and whether a default should have been registered then. Typically, defaulting an account isn't appropriate when less than three to six monthly payments are missed and I wouldn't have expected the account to be defaulted following single missed payments in November 2017 and January 2018. But I take a different view of the period between September 2018 and March 2019, when Mrs B only made payment once in that whole seven-month period.

AvantCredit says it didn't think it was appropriate to default the account at this time because Mrs B was in a debt management plan with a debt advice charity. It says this type of arrangement doesn't automatically terminate following a period of non-payment due to issues sometimes encountered receiving and applying payments

from third parties. AvantCredit also says it would expect the debt advice charity to tell it if a payment was missed because money hadn't been received from the customer, but it received no such communication in this case.

I appreciate AvantCredit was faced with a difficult decision here. On the one hand, there would have been a desire to support Mrs B with her payment arrangement without defaulting the account and thereby avoiding unnecessary damage to her credit file. But on the other hand, avoiding this action would mean the date when any default that might need to be registered later would be removed from her credit file would be delayed. I must also be mindful that AvantCredit wouldn't have known whether Mrs B would be able to get her payments back on track in the future when deciding whether to default the account.

I've considered this point very carefully and, on balance and taking everything into account, it's my view AvantCredit should have moved to default the account following the missed payment in March 2019. By this time, no payment had been received in six of the previous seven months. This timespan also included two periods of three consecutive months where no payment was made. I note AvantCredit's comments about the problems that can be associated with overseeing a debt management plan, but I don't think a record of one payment in seven months could reasonably be attributed to administrative problems and postal delays.

Based on the information it was faced with in March 2019, I think AvantCredit should have concluded the payment arrangement had broken down. And in view of the payment history over the previous seven months, I think this was the point in time when it should have moved to begin the process of defaulting the account.

It's for these reasons that I'm currently proposing to uphold this complaint.

Mrs B confirmed she didn't want to challenge my provisional decision. AvantCredit made the following points:

- By being in a debt management plan, Mrs B received the benefit of not accruing interest on the loan or late payment fees from the date of entering the plan.
- It's unclear what happened between January and March 2019 as its notes appear to show Mrs B wanted to leave StepChange and handle repayments herself. This is why StepChange notified AvantCredit she'd left debt management and why AvantCredit reached out to confirm the position. Mrs B only contacted AvantCredit in March 2019 because the termination had been processed and it presumes she wanted to ensure no interest, fees and collection activities would commence after committing to the termination with StepChange. Had AvantCredit defaulted the account before speaking to Mrs B, it's likely she would have raised a complaint at the time for placing the account into default, when there was an arrangement to pay.

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.

Having done so, my findings haven't changed from those I set out previously. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

I note AvantCredit's comments and, as I've said previously, I appreciate it had a difficult

decision to make about whether to default the account or not in the hope that payments would recommence. But, ultimately, I don't think the circumstances described change the fact that, by March 2019, six out of seven payments had been missed and that it was reasonable to believe the payment arrangement was broken. It then follows that this was the point at which the account should have been defaulted.

Putting things right

The principal aim of any award I make is to return Mrs B to the position she'd be in if AvantCredit had begun the process of defaulting the account when the payment due in March 2019 wasn't received.

To put things right, AvantCredit should amend Mrs B's credit file so it records the process of defaulting her account began immediately after the March 2019 payment was missed.

I'm satisfied this represents a fair and reasonable settlement to this complaint. I appreciate this isn't quite the outcome Mrs B was hoping for and she may want to take advice about the consequences of her credit file being amended in this way before deciding whether to accept this outcome.

My final decision

For the reasons I've explained, I'm upholding Mrs B's complaint. Subject to her acceptance, AvantCredit of UK, LLC should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 31 May 2024.

James Biles
Ombudsman