

The complaint

Mr F says Shop Direct Finance Company Limited failed to report a default on his credit file in relation to a credit account.

What happened

The account fell into arrears in February 2018 when the account balance was £942.95. Shop Direct agreed for the account to be put on hold while a debt management plan (DMP) was set up via a third-party debt adviser acting on behalf of Mr F. This happened in July 2018, when it was initially agreed Mr F would pay 18 instalments of £16.59.

Mr F complained to Shop Direct in 2023 that it should have reported a default in April 2018 rather than continuing to report late payments as these remained on his credit file for longer, causing him more detriment.

Shop Direct replied that it was entitled to delay reporting a default as it did, given the circumstances and because a DMP was in place. It said it correctly reported arrears, and then the arrangement to pay, until the account was settled in April 2021.

Unhappy with Shop Direct's response, Mr F brought his complaint to this service. Our investigator looked into the matter and recommended that it should be upheld. They believed Shop Direct ought to have reported a default by July 2018 as, among other things, the account had been in arrears for five months by that time. The investigator said it was likely the relationship between Mr F and Shop Direct had broken down at that stage.

Shop Direct didn't agree with the investigator's findings. It said the relationship hadn't broken down because a DMP was in place. The agreed payments were made and the balance was eventually cleared, proving the plan was successful for Mr F.

As the investigator wasn't able to informally resolve the complaint, it was passed to me to review afresh.

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, I uphold this complaint. I'll explain why.

I think the Information Commissioner's Office's (ICO) *Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies* are of significance here. According to the foreword, these were drawn up by the credit industry in collaboration with the ICO. They were intended to become the main source of advice for the public on the reporting of arrears, defaults and so on with the credit reference agencies (CRAs).

As such, I think it's fair and reasonable to take account of the Principles in reaching my decision on Mr F's case.

In particular, the Principles say that, as a general guide, a default may be recorded when three months of arrears have accrued, and normally by the time six months of arrears have accrued. The Principles indicate that a range of factors will need to be taken into account before doing so.

As such, there's no definitive timeframe for reporting a default and each case will depend on its own facts. In this case, I'm of the view that Shop Direct's intention was to treat Mr F positively and sympathetically. And I'm aware the account was eventually settled by April 2021, by which time Mr F repaid the outstanding amount. On the face of it, the outcome might appear to be favourable to both parties.

Having said that, it's not for me to consider the complaint with the benefit of hindsight. I need to think about whether Shop Direct treated Mr F fairly at the relevant time. In addition, just because Mr F went on to settle the account, that doesn't mean he didn't also suffer a loss in doing so.

To summarise, it's not in dispute that Mr F's account fell into arrears in February 2018, meaning he was in breach of the original credit agreement he had with Shop Direct. Or that Shop Direct contacted Mr F about the arrears and the importance of clearing them. By Shop Direct's own admission, after hearing from Mr F in February 2018 that he intended to enter into a DMP, it didn't hear from him for the next four months. It was only in June 2018, after writing to him twice, that it finally received notification regarding the DMP. The third-party debt adviser was acting as Shop Direct's point of contact for Mr F.

This indicates to me that the relationship between Shop Direct and Mr F had become strained by mid-2018, and it could even be argued that it had broken down.

When a DMP was agreed by the parties in July 2018, this meant Mr F was to pay £16.59 a month against an outstanding balance of £942.92. The monthly payments increased to £20.45 from April 2020. It's difficult to see these payments as anything other than token since, in themselves, they'd have resulted in Mr F's arrears remaining uncleared for several years. The DMP couldn't reasonably be described as temporary due to how long it was due to run for. None of this was necessarily in Mr F's interests since this led to the continued reporting of adverse information to the CRAs, in turn affecting his credit file, well into 2021. This was despite the payment of some lump sums along the way.

Looking at the information provided by both sides, I'm persuaded that Shop Direct ought, at some point, to have reported the account as being in default to avoid more recent adverse information showing on Mr F's credit file than was necessary. I believe July 2018 stands out as the fairest time to backdate this to on the basis that the account had been in arrears for five months by that time – and because that's when the long-running DMP, set up via the third-party debt adviser, started.

Putting things right

Shop Direct should ensure that a default is reported and backdated to July 2018 at the latest, and that the remainder of its reporting on the account is amended accordingly.

My final decision

For the reasons given, I uphold this complaint. I require Shop Direct Finance Company Limited to put things right for Mr F as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 24 September 2024.

Nimish Patel
Ombudsman