

The complaint

Mr C complains that Telefonica UK Limited trading as O2 incorrectly applied a default to his credit file. He says this blocked him from accessing personal and business credit. He wants the default removed from his credit file, a full written apology from O2 and compensation to cover the additional costs he has incurred by his credit application being declined and the time he has spent trying to resolve this issue.

What happened

In March 2022, Mr C says he was refused a remortgage from his bank. He said that he believed this to be an administration error but didn't pursue this further.

In February 2024, Mr C applied again for a remortgage and his bank declined his application. His bank told him that his credit rating with it was excellent but that there was a bad reference against him, and he should investigate this. Mr C bought copies of his credit files and saw that O2 had registered a default against him for £290 but had then noted this had been settled. Mr C said he had never missed a payment on his O2 account and thought the issue may have arisen when he traded in his phone. Mr C said he was never contacted by O2 about any issue on his account.

Mr C believes the default to be the reason why he was refused a remortgage in 2022 and 2024 and has also noted that when his business overdraft was up for renewal in November 2022, this was also declined.

Mr C raised a complaint with O2 and said he spent hours on calls trying to resolve the issue and that O2 failed to get back to him within the timescales it promised. He wants the default removed and compensation for the additional borrowing costs he has incurred (he says that the cost of borrowing has increased since his first application in 2022), refunds for the payments he has made to the credit reference agencies and compensation for the time he has spent trying to resolve this complaint and the stress this has caused.

O2 said that after Mr C contacted it, action was taken to remove the default from his credit file. It said that as Mr C had a residential account it wouldn't pay compensation for loss of earnings and said that as it was Mr C's decision to take out lending at a higher rate it wouldn't compensate him for the difference. It did offer a goodwill gesture of £350.

Mr C referred his complaint to this service.

Our investigator noted that the issue appeared to have arisen when Mr C traded in his phone and O2 reconciled his account in an incorrect way which caused the default to be recorded. As the default had been recorded incorrectly, he found it reasonable that this was removed. He noted that Mr C had received an email from the credit reference agency on 29 July 2024 saying the default had been removed and so he found this resolved this aspect of the complaint.

Our investigator considered the impact this issue had had on Mr C. He explained that the decision of the business overdraft wasn't being considered as part of this investigation as

this was for a business account which was a separate entity to Mr C. Regarding Mr C's remortgage applications, he noted that Mr C reapplied in September 2024, after the default had been removed, and his application was accepted. He thought this supported Mr C's complaint that his previous applications were declined due to the default.

However, our investigator didn't agree with Mr C's proposed resolution to his complaint as he thought Mr C could have done more to mitigate his losses when his first application was declined in 2022. Therefore, he didn't think it fair that O2 be required to pay any compensation for the increase in interest rates between 2022 and 2024. He also didn't think that O2's offer of £350 was sufficient given that a mistake had been made which resulted in a great deal of stress and inconvenience to Mr C. Our investigator recommended that O2 pay Mr C £750 compensation.

Mr C had received a cheque from O2 for £378 which our investigator said could be cancelled or returned.

Mr C responded to our investigator's view. He said that when his application was declined in 2022, he didn't receive any advice or direction about how to investigate the decline and as he hadn't experienced this before he had no idea of the options available to him. He noted the comment about his business account but said he operated as a sole trader and so the overdraft decline had a direct impact on him. He said that after identifying the issue with his credit file he spent over 50 hours on calls to O2 in March and further time in subsequent months. This caused him stress as well as inconvenience. He also said that he had paid for subscriptions to the credit reference agencies which he wouldn't have done had this issue not occurred. He said he had provided evidence of the additional costs he needed to pay for the works he was trying to finance and the additional interest costs and thought these needed to be considered. Mr C also noted that he had been declined credit for a smart watch.

O2 agreed that the default shouldn't have been applied but said this was resolved once it was made aware of the issue. It said that had Mr C raised this sooner, action would have been taken sooner. Therefore, it thought that compensation of £500 was reasonable (not £750). Regarding the cheque that had been issued O2 said this could be used towards the amount of compensation it had offered or it could be cancelled, and the agreed compensation amount issued (once it had Mr C's bank details).

Our investigator responded to the points raised but as these didn't change his view, this complaint has been passed to me, an ombudsman, to issue 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.

The underlying complaint issue in this case is that O2 incorrectly applied a default to Mr C's account. The explanation of why this happened isn't completely clear, but the issue appears to have arisen when Mr C traded in his phone. As O2 has accepted the default was applied incorrectly and it has been confirmed that the default has been removed, I find this resolves this part of Mr C's complaint.

While the default has been removed, as it was recorded on Mr C's credit file while he was applying for other credit it has had an impact. He has said that he was refused credit which resulted in him facing higher costs both for the costs of the credit and the underlying goods he was intending to pay for. When considering a claim for consequential losses, I would need to see that the loss arose directly from the mistake, that it was reasonably foreseeable,

and that the consumer had tried to mitigate it. I have taken this all into account when assessing what is a reasonable remedy to this complaint.

Mr C has provided a copy of his credit report showing the default recorded with a default date of July 2021 and default balance of £378. His report doesn't show any payment issues on his O2 account (or any other accounts). So, the only adverse information recorded is this default.

Mr C has provided evidence from his bank stating that he applied for an advance to his mortgage in February 2022 and this was declined. The bank adviser said this would have been the result of a soft credit search. Mr C has explained that the advance was needed to pay for works which have since increased in cost and that the cost of finance has also increased since this date. While I note Mr C's comments, I do not find that O2 should be required to refund the cost difference from this time. I say this because Mr C could have mitigated his losses by checking his credit report at the time. Based on O2's actions when he did raise the issue with it, I accept that had he made contact in 2022, the default would have been removed much sooner.

I have considered Mr C's comment that he wasn't told why his 2022 application was declined and didn't know what his options were. Mr C has also said he raised a complaint with his bank at the time his application was declined and was asked his permission for a credit search to take place. He said he was then told the application was declined because of another substantial loan against his property but he said this was incorrect. While I have taken Mr C's comments into account, it appears he was aware the reason given at the time wasn't correct and so I would expect him to have asked for further details. Since raising this complaint Mr C's bank has said the decline was the result of a soft credit search. On balance, I think that had Mr C wished to pursue his complaint at that time he would have asked further questions and as he was aware a credit search had taken place it would have been reasonable for him to check his credit file.

Mr C has said that his overdraft renewal request for his business was refused in November 2022. The credit requested was for his business accounts and while I note Mr C's comment about being a sole trader, I would expect a range of factors to be taken into account. Mr C raised a complaint with his bank about this issue and it provided a final response saying that he was told at the time that a full financial review was needed, and Mr C chose not to continue. Had this review happened, Mr C may have identified the issue with his credit file. Mr C has also said he was refused credit on a smart watch which caused him embarrassment.

Mr C applied for a remortgage in February 2024 and his application was declined. Mr C was told there was a bad marker on his account, and he checked his credit file. At this point Mr C became aware of the default. As Mr C wasn't aware of the default before this time, I cannot say that it caused him distress. However, I accept that once he did become aware, this was upsetting. Mr C has said that he spent several hours on calls to O2 trying to resolve the issue and that O2 didn't provide responses within the timeframes promised. Based on O2's system notes, Mr C raised this issue with it on 1 March and I can see he made several calls to O2 during that month. He was told on 26 March that a credit file ticket amendment had been raised and that it could take up to 60 working days for his credit file to be updated. So, while Mr C did have to spend time trying to resolve the issue, O2 did take action to investigate his concern and then amended Mr C's credit file.

Mr C received notification that his credit file had been amended in July 2024 after which he made a further remortgage application in September 2024 which was accepted.

In assessing a fair outcome to this complaint, I have taken into account the time Mr C has

spent trying to understand why the default was recorded and getting this issue resolved. I have also considered that Mr C needed to put in an additional remortgage application in September 2024 after having confirmation that the default had been removed and note the embarrassment the credit declines have caused him and the stress he has experienced. Against this I have considered the action that O2 took when it was made aware of the issue. Considering all of this, I find that the compensation recommended by our investigator of £750 is fair. I understand that Mr C doesn't feel this is sufficient, and O2 consider it too much. But for the reasons I have set out, I find this a fair resolution to this complaint (alongside the action already taken to remove the default).

Putting things right

O2 should pay Mr C £750 compensation for the distress and inconvenience he has experienced by a default being incorrectly applied to his credit file. O2 has sent Mr C a cheque for £378, this can be used as part of the compensation payment, or it can be cancelled and the full £750 paid to Mr C. Mr C should let O2 know how he wishes to proceed.

My final decision

My final decision is that Telefonica UK Limited trading as O2 should take the action set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 19 February 2025.

Jane Archer
Ombudsman