DRN-5710062

The complaint

Mr A complains that Clydesdale Bank Plc, trading as Virgin Money, unfairly recorded a default against his credit file and passed his debt to a debt collection agency.

What happened

Mr A holds a credit card account with Virgin Money. Mr A found himself without work, and as a result, arrears started to build on his account. He was subsequently issued with a Notice of Default in December 2024.

Following receipt of the notice, Mr A reached out to Virgin Money. He explained his situation, and that he was looking for work. He asked to be put on a temporary reduced payment plan until his circumstances changed. He said that once back in work, he would be able to substantially increase his repayments due to his earnings potential.

Virgin Money completed an income and expenditure assessment (I&E) with Mr A and established that his monthly disposable income was less than £2 per month. So, they agreed to accept reduced repayments of £1.95 a month, under what they referred to as a hardship plan. However, before the first monthly payment was made, Mr A's account defaulted, and his debt was passed onto a debt collection agency. Unhappy with this, Mr A complained. He said that his credit file had been severely affected which will have a lasting impact. He said it's also impacted his mental health.

Virgin Money responded. They said they were satisfied that they had handled matters correctly; they said a hardship plan was put in place due to Mr A's limited disposable income; and they said that they made Mr A aware that despite the plan, his account may default regardless and could be passed to a debt collection agency. Mr A remained unhappy and felt this wasn't made clear, so he brought his complaint to our service.

An investigator considered Mr A's complaint, and recommended it be upheld in part. He said he was satisfied Virgin Money were right to report the default on Mr A's account and refer his account onto a debt collection agency; based on the level of arrears that had accrued, and the fact Mr A's financial position wasn't showing any immediate signs of recovery. But he felt the information Virgin Money provided Mr A in relation to the hardship plan, and information it shared around when the account may default, was poor; especially given that the account then defaulted prior to the first reduced payment falling due. So, he recommended Virgin Money pay Mr A £50 for any distress or inconvenience this matter may have caused.

Virgin Money didn't respond, but Mr A did. He said that he felt the investigator's proposed redress did not go far enough. He said he was under the impression the account would not default immediately. And he said that having his debt sold to a third party has impacted him both mentally, as well as having a lasting impact on his financial status.

So, as no agreement has been reached, the case has been passed to me, an Ombudsman to decide.

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.

While I appreciate this may come as a disappointment to Mr A, I've reached the same conclusion as the investigator and for broadly the same reasons.

Looking first at the Notice of Default that was issued, this was produced and sent to Mr A on 28 December 2024. It set out that Mr A's account was around six months in arrears and explained that he needed to pay £338.74 by 25 January 2025. It explained that if Mr A failed to do so, his account would default, and that his debt may be sold to a third-party to recover.

The fact a Default Notice was issued, and the content of the Default Notice does not seem to be in dispute. And I'm satisfied all parties were initially aware of what needed to happen to prevent Mr A's account from defaulting.

Following the expiry of the default notice, on 28 January 2025, a letter was issued to Mr A explaining that his account was now in default and would be terminated. Mr A's debt was subsequently sold to a third-party on 6 February 2025. I'm satisfied, that given Mr A's account was around six months in arrears, Virgin Money were right to issue a default notice based on the Information Commissioner's Office's (ICO) guidance for reporting of arrears. And, given no payment was made by the expiry of this notice, on the face of it, it looks like Mr A's account defaulted when it should have.

However, I also need to take into account the conversations that took place between Virgin Money and Mr A in the lead up to the default.

I've now listened to the call between Mr A and Virgin Money, where Mr A made it clear that he wanted to come to a temporary payment arrangement. He also made it clear, when asked, that he could not afford the contractual minimum payments due under the agreement.

Virgin Money completed an I&E, and as stated above, established he had a monthly disposable income of £1.95, which it used to set Mr A's ongoing repayments under the hardship plan. Mr A accepted this and reiterated that he hoped to be back in employment soon, and that he would then look to increase his payments.

Virgin Money's adviser, before putting the plan in place, went through a list of things that would happen. While this list is not exclusive, she covered off that the card would be blocked, that interest would be frozen, and that payments would need to be made manually. She said that while there was an arrangement in place, the statements will still show the minimum payment due as 2.5% of the account balance. And she said that where the minimum payment wasn't being made, the arrears on the account would show as worsening, and the account would likely default. She said that where an account defaults, it will likely be sold to a debt agency. She also said that the account could take several months to default. So, I think there are a few key points to cover off here.

Virgin Money agreed a plan for £1.95 a month. But also mentioned during the call that the statements would show the minimum payment as being 2.5% of the account balance. So, when Virgin Money explained to Mr A that if the minimum payment wasn't made that the arrears would show as worsening and that the account may eventually default, I think they could've done more to make it clear that they meant the minimum 2.5% payment not being made, rather than the new payment under the hardship plan. From listening to the call, while I can't be sure how Mr A interpreted this, I think it's possible, given what he's now said, that he could've misunderstood this to mean that if he keeps paying the £1.95 a month, his account wouldn't default. So, I think Virgin Money could've been clearer here.

Turning to Virgin Money's comments regarding the date the account would default, they said this could take several months. While this may be correct, it seems this would only be likely if Mr A was to clear the outstanding arrears or potentially pay more than the 2.5% required. However, given Virgin Money had already done an I&E at this point, where it became clear Mr A did not have the means to pay either of those sums, and therefore agreed to a hardship plan, I think they could've been much clearer in explaining that if Mr A fails to meet the terms of the default notice by the set date, then the account would default shortly after the Default Notice expired, and before commencement of the hardship plan.

Despite the above not being clear, I can see that Virgin Money did however later explain, that the account was in the process of defaulting, and that the plan would not stop the account from defaulting. I think these comments were clearer and should've helped Mr A understand that the new plan in place wouldn't prevent the default occurring. So, I've gone on to think further about the repayment plan Virgin Money set.

The hardship plan was due to start in mid-February. But, given the default would be issued at the end of January unless Mr A was able to pay considerably more than he'd agreed to - which it seems Virgin Money had established he couldn't - I think there's an argument to say that the plan was of no use, given the first payment was due to start after the date the default would likely be recorded. So, on the face of things, it could be argued that the plan seems somewhat redundant.

That being said, Mr A had expressed that he was hoping for his financial circumstances to change soon, and that he had job interviews lined up, and was hoping to secure employment. And I think that had things moved faster here, and Mr A was able to access some funds to clear the arrears, the ongoing plan of £1.95 may have been acceptable and could've, in the circumstances, potentially prevented a default from occurring. So, while I think the information Virgin Money provided was unclear, and the plan did not really support Mr A in the way he was expecting it to, I think there was some value in putting the plan in place, given Mr A was trying to prevent the account from defaulting.

I also need to think about what would be best for Mr A, and what Mr A would've most likely done, had the information Virgin Money presented been clearer.

A default, once issued, generally remains on a customer's credit file for six years. So, when considering the date a default should be issued, on one hand, I would expect a business to exercise forbearance and allow some latitude with a customer, and think about things such as repayment plans, before jumping straight to defaulting an account when a customer is struggling.

That being said, where it appears there is little chance in the short-term of a financial recovery, and the arrears on the account are already such that the account is well into default status, then equally, I would expect a business to default the account as soon as possible, so as not to push back the date that the default would eventually drop off of a customer's credit file.

In this instance, Mr A was unable to pay even the 2.5% minimum payment due towards the account; the amount that had been agreed was a nominal payment of £1.95 - based on him having next to zero disposable income to be able to attribute towards his repayments; and his account was already six months in arrears. And, while Mr A has informed Virgin Money that he had job interviews lined up, he did not seem to be in receipt of an offer of employment, and there were no confirmed timescales around when he might have the means to start resuming contractual repayments.

So, while I appreciate Mr A had the best intentions in terms of how he was looking to maintain the account; and, while there were clearly shortcomings on Virgin Money's part; I think, even if Virgin Money had provided Mr A with clearer information, I'm not persuaded that he had the means by which to pay any more than he had agreed to. So, in summary, while I appreciate this may disappoint Mr A, I'm satisfied that Virgin Money were right to report a default on Mr A's account when they did. And ultimately, their shortcomings didn't have a material impact on how things would play out.

I do however think that the information provided by Virgin Money could've been much clearer. And I think they could've been clearer about when the account would default, if he stuck to just the payments agreed to under the new hardship plan.

So, for these reasons, I will be upholding Mr A's complaint in part, and I instruct Virgin Money to compensate Mr A for these shortcomings with a payment of £50.

My final decision

My final decision is that I uphold Mr A's complaint, and instruct Clydesdale Bank Plc trading as Virgin Money, to pay Mr A £50 compensation for any distress this matter may have caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 12 September 2025.

Brad McIlquham
Ombudsman