DRN-5759738

The complaint

Miss P complains that Salary Finance Loans Limited ('SFL') didn't communicate fairly with her or adequately support her during a period of financial difficulty. Miss P complains that SFL reported adverse information to her credit file and caused her significant distress.

Miss P wants SFL to compensate her and amend her credit file.

What happened

Miss P was honest with SFL about her financial difficulties when she fell behind with her loan repayments in September 2024. SFL placed a hold on her account until mid-January 2025 and an arrangement was put in place for Miss P to pay instalments towards her loan.

On 20 January 2025 SFL issued a default notice, which Miss P hadn't expected. Miss P paid the amount required to avoid a default. Miss P complained to SFL about the way her account had been handled when she was in financial difficulty, and how SFL had communicated with her.

SFL didn't uphold Miss P's complaint, saying that they'd followed their process correctly due to the arrears building on Miss P's account.

Miss P referred her complaint to the Financial Ombudsman Service citing a breach of SFL's obligations. Miss P highlighted that SFL hadn't been clear about what was happening on her account, and they'd exposed her to financial harm.

Our investigator considered SFL had reported Miss P's arrears accurately and fairly to the Credit Reference Agencies ('CRAs'), so didn't recommend any amendments to Miss P's credit file. He concluded that it was fair for SFL to issue a default notice. However, he didn't think SFL acted fairly by agreeing a payment arrangement with Miss P whilst still informing her a default would be reported if the terms of the default notice weren't met.

In the circumstances our investigator considered SFL had unfairly pressured Miss P to pay to avoid her default being reported. Our investigator recommended SFL pay £225 compensation to Miss P to put things right.

SFL strongly disagreed with our investigator's conclusions, and the matter was passed to me to decide.

My provisional decision

I recently sent the parties my provisional decision, saying:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've taken into account any relevant law and regulations, the regulator's rules, guidance and standards, codes of practice and (where appropriate) what is considered to have been good industry practice at the relevant time.

Having done so I intend to reach a slightly different conclusion to our investigator, and I intend to say SFL should pay £100 to Miss P to recognise her distress and inconvenience. I'll explain why, and I'll consider any comments the parties have in response before making a final decision.

The Financial Conduct Authority sets out rules and guidance for firms engaging with customers in default or arrears in the Consumer Credit Sourcebook ('CONC') within its Handbook ('FCA Handbook').

CONC 7.3.2(G) sets out that a firm should pay due regard to its obligations to treat its customers fairly, and CONC 7.3.4(R) says that a firm must treat customers in default or in arrears difficulties with forbearance and due consideration.

I'm inclined to say SFL can demonstrate they met the FCA's expectations when engaging with Miss P about her financial difficulties. I say this because when Miss P informed SFL of her change in circumstances SFL made appropriate notes, holds were placed on Miss P's account and efforts were made to set up a payment arrangement when Miss P started to accrue arrears.

I'm inclined to say SFL communicated fairly with Miss P about the impact of the hold on her account. I say this because SFL wrote to Miss P to confirm the hold on her account would stop interest and some contact, but paying less than the contractual amount would lead to further arrears and missed payments being reported to Miss P's credit file.

Miss P's shown me two missed payments on her credit file for November 2024 and December 2024, when a hold was on her account. I'm inclined to say these markers are accurate and fair, as Miss P had been informed the hold didn't stop payments falling due. I don't intend to ask SFL to remove these.

I've considered SFL's credit reporting obligations. I've looked at the guidance issued by the Information Commissioner's Office (ICO) which says:

"Generally, by the time the account is at least three months in arrears the lender may be taking further action such as reporting the account as defaulted."

"If, due to financial difficulty, your lender agrees a reduced or revised payment with you, this will be reflected on your credit file...It is important that you are made aware, when such an arrangement is made and maintained, that it will show on your credit file and that whilst arrears may accrue and increase a default will not be recorded."

The ICO contemplates such arrangements to be temporary in nature, saying:

"Depending on the period and amount of the arrangement, arrears may continue to be reported. Such temporary arrangements may last for some time but are generally expected to revert to the contracted terms at some future point. For such accounts arrears may continue to be calculated in accordance with the contracted terms."

I'm minded to say the ICO envisages that a default may still be possible when an arrangement is kept to, as it also says (my emphasis):

"If an arrangement is agreed… a default would not normally *be registered unless the terms of that arrangement are broken."*

“Generally, by the time the account is at least three months in arrears the lender may be taking further action such as reporting the account as defaulted.”

I’m inclined to say that while the ICO acknowledges that temporary arrangements might lead to some arrears, it wouldn’t expect lenders to allow arrears to increase endlessly without a default status being registered or the terms of the agreement being permanently revised.

That’s because temporary arrangements are meant to bridge a short gap while someone gets back on track with their contractual obligations. I inclined to say the ICO sets the benchmark that an account will be registered with default status when it reaches three to six months of arrears to provide consistency in the industry’s credit reporting, so that default status information indicates the level of trouble a person’s had maintaining an account and that the contractual relationship between the parties has broken down.

I’m not inclined to say the ICO’s guidance is incompatible with SFL acting in accordance with their legal rights and regulatory obligations. If a default notice was issued under the Consumer Credit Act 1974, and was unsatisfied, I’d expect the CRAs to be told that the account had defaulted.

I’ve thought very carefully about how SFL communicated with Miss P. The guidance in CONC 7.3.13A says that when engaging with customers in or approaching arrears or in default, firms are reminded to give customers information that’s sufficient to enable them to understand their financial position in relation to their debt. This includes the potential impact of any forbearance or other support on their overall balance and how it will be reported to their credit file.

I’m minded to say it was fair in these circumstances for SFL to accept payments whilst also informing Miss P that a default would be reported if the terms of the default notice weren’t met.

The alternative would be for SFL to continue to report Miss P’s arrangement to the CRAs when her arrears were worsening over time. I’m not minded to say this would be fair given the likely impact on Miss P’s credit file. I’m mindful that arrangement markers would remain on Miss P’s credit file for six years after the last entry, whereas a default would be removed six years after the initial default date.

SFL said a payment plan would show on Miss P’s credit file as an arrangement, but this would not stop regulatory notices being sent, such as arrears letters and a default notice. SFL said a reduced payment plan – that is, not paying the contractual monthly amount - would mean arrears continued to build. SFL also said it was possible a payment plan wouldn’t stop a default from being registered. I’m minded to say SFL clearly indicated to Miss P that a default was possible.

When the payment plan was put in place on 23 January 2025, the payments were for less than the monthly instalments. SFL confirmed a default notice had been sent on 20 January 2025 and said, “as you are unable to clear the arrears by 17 February 2025 the account will show as a default on your credit file.”

I’ve been uncomfortable with the timing of this information because I’m minded to say it would have been more supportive and in keeping with the spirit of the CONC guidance to remind Miss P about the upcoming default at the outset of the conversation on the 23 January 2025. I am minded to say it was frustrating for Miss P to exchange multiple emails with SFL about a payment plan only to be informed at the end that a default was due to be registered. Miss P then started a fresh discussion about how she could avoid this. I intend to say SFL should pay £100 to Miss P to recognise her distress and inconvenience here.

Miss P says she's been exposed to financial harm as she's satisfied one default notice only to be presented with another later. I'm not minded to say the timing of SFL's warning on 23 January 2025 prevented Miss P from taking independent advice about her default notice or changing her mind about the payment plan.

And I'm minded to say SFL's email dated 6 February 2025 fairly indicated to Miss P that even if she paid the sums stated on the default notice the arrears would build again, and a further default notice may be issued, because she wasn't paying her monthly instalments. I was pleased to see that SFL provided Miss P with names of organisations that could provide her with free and impartial money advice. So, I'm inclined to say SFL gave Miss P the opportunity to consider her options and make an informed decision about her account, in line with what I would expect."

Responses to my provisional decision
SFL acknowledged my provisional findings and had nothing further to add.

Miss P responded to say her serious affordability issues were ignored and SFL put disproportionate pressure on her to pay when she was financially vulnerable. She said this was ethically unacceptable and contradicted responsible lending practices.

Miss P wanted a refund of the money she'd paid under duress. Miss P clarified she was not refusing responsibility but she asked for fairness, acknowledgement of harm, and protection from further exploitation.

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.

I acknowledge how upsetting this matter has been for Miss P and I don't wish to make things worse at a time when she's struggling. However, I've not been persuaded to change my mind from my provisional decision and I adopt my reasoning here. I've decided SFL should pay Miss P £100 for her distress and inconvenience, but I won't direct them to do more than this.

I don't agree Miss P's financial vulnerability was ignored. I've found SFL put appropriate holds on Miss P's account and when Miss P asked for a payment plan this was arranged with her via email. Miss P provided details of her income and expenditure – and then updated these - which led to a reduced monthly payment being agreed out of Miss P's disposable income.

I acknowledge it was upsetting for Miss P to subsequently receive a default notice but I don't think SFL's actions here were coercive, rather they were taking steps to default Miss P's account because it was unsustainable. In most cases defaulting an account will prevent a debt from increasing as typically charges and interest are stopped.

Miss P says she satisfied the default notice using money she needed for essential living expenses, and I have no reason to doubt this. However, I don't agree that SFL unfairly pressured Miss P to pay them. I've looked carefully at the correspondence between the parties, and I think SFL provided Miss P with factual information about what would happen if she didn't make her usual monthly instalments or meet the terms of the default notice. SFL gave Miss P the details of organisations that could provide her with free, independent and reliable money advice.

In these circumstances I don't think it was unfair for SFL to accept payments which Miss P evidenced she could afford or decided to pay them. I know this will disappoint Miss P but I'm not going to ask SFL to refund her the sums she paid to avoid her account defaulting in February 2025.

I maintain it was unfair that SFL didn't discuss Miss P's default notice with her at the outset of the payment plan negotiations. I think this would have saved Miss P some distress and inconvenience, and SFL should pay Miss P £100 to recognise this.

Putting things right

Salary Finance Loans Limited must pay Miss P £100 for her distress and inconvenience.

My final decision

For the reasons I've given Salary Finance Loans Limited must put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 23 September 2025.

Clare Burgess-Cade
Ombudsman