

complaint

Mrs F is complaining about the way MBNA Limited (MBNA) recorded information on her credit file.

background

Mrs F had a credit card with MBNA. In May 2009 she entered into a debt management plan after falling behind on her payments and, as part of this, MBNA accepted reduced payments towards the credit card. It also changed the terms of her account so that it no longer accrued interest and to stop any further borrowing.

In 2012 MBNA sold the debt on to a third party and Mrs F is now unhappy that her credit file shows several years of arrears and will continue to do so until she has repaid the debt. She says that MBNA ought to have recorded a default on her credit card in 2009 as she was in arrears and unable to make the minimum payments.

Our investigator didn't uphold Mrs F's complaint. She thought it was reasonable for MBNA not to record a default as it didn't consider the relationship with Mrs F to have broken down as long as there was an informal arrangement in place.

Mrs F disagreed and so the case has come to me to decide.

my findings

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'm not going to uphold Mrs F's complaint and I'll explain why.

All lenders have to report accurate and up to date information to the credit reference agencies. I've thought about whether MBNA has done this, taking into account the facts of this case, relevant law and industry good practice. This includes guidance from the Information Commissioner's Office (ICO) which Mrs F has referred to in her complaint.

In particular, Mrs F has referred to ICO guidance that a default should be applied where there's a breakdown in the relationship between the lender and the borrower, for example when payments haven't been received for six months. She's pointed out that she wasn't able to make her minimum payments for more than six months and her account remained in arrears while her debt management plan was in place.

I can see why Mrs F believes that the missed or reduced payments on her account meant that a default was warranted. But I can't consider that in isolation – I also have to bear in mind that MBNA had agreed to accept reduced payments as part of a debt management plan.

The ICO's 'Principles for the reporting of arrears, arrangements and defaults at credit reference agencies', published in 2014, discussed informal payment arrangements and debt management plans. It said that where a plan is accepted and the agreed payments are made, arrears should continue to be recorded but not a default.

So, taking all of that into consideration, although Mrs F's account was in arrears – because the minimum payments weren't being met – I don't think MBNA acted unreasonably in not recording a default as she was, with the odd exception, regularly paying the amount she'd agreed with MBNA.

I can understand why Mrs F feels so strongly that a default ought to have been applied back in 2009 - she feels she'd now be in a better position as the default would've expired from her credit file after six years. But I don't think it's fair to apply the benefit of hindsight in deciding whether MBNA acted reasonably with the information it had at the time.

Recording a default can have serious consequences and so it isn't a decision that should be taken lightly. We expect lenders to treat customers who are in financial difficulty positively and sympathetically, and from what I've seen it seems that MBNA have done that by reducing the interest rate on Mrs F's credit card to 0%, removing the facility to continue borrowing and agreeing to reduced payments.

Although Mrs F's account was in arrears and she'd missed some payments, she was engaging with MBNA and wanted to enter into a debt management plan, which MBNA had agreed to. So it seems that avoiding a default would've been important to Mrs F at the time. And given the serious impact a default marker could have had on Mrs F's credit file, I don't think it was unfair of MBNA not to apply a default in light of Mrs F's efforts to repay her debt and their ongoing relationship.

During the time that MBNA owned the debt, Mrs F's credit file shows that she was in a debt management plan and that her account was in arrears. This is an accurate reflection of the position of the account while it was with MBNA. And because I don't think MBNA made a mistake in not applying a default, I won't be asking them to do anything to amend Mrs F's credit file.

my final decision

For the reasons I've explained, I don't uphold Mrs F's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 24 July 2017.

Daniela Cirignano
ombudsman