

complaint

Mr L complains that Creation Financial Services Limited (Creation) cancelled his direct debit for a finance agreement and reported missed payments on his credit file.

background

In 2016 Mr L bought a sofa and opted to pay for it through a finance agreement with Creation.

Towards the end of 2018 Mr L's direct debit was cancelled. Creation says it sent letters out to Mr L to let him know about the cancelled direct debit and notify him of the arrears on the account. It also sent texts and made numerous calls, none of which connected. No payments were received for three months, and Creation didn't hear from Mr L.

After realising his direct debit had been cancelled, Mr L complained to Creation in February 2019. He hadn't received Creation's letters, as he'd changed his address. Creation also held the wrong contact number for him.

When Mr L contacted Creation earlier this year he'd recently been turned down for a mortgage – and said the lender told him it was due to adverse data on his credit file. Mr L disputed the missed payments recorded by Creation, saying he wasn't responsible for cancelling the monthly payment instruction. He'd spoken to his bank, who said it was Creation that had cancelled it.

Creation's response said it had received a request to cancel the direct debit from Mr L's bank. The reason code given was 'instruction cancelled by payer', so it didn't think it was at fault for the cancellation. Creation also said it was required to report Mr L's account conduct accurately to the credit reference agencies – and so wouldn't be amending his credit file.

Mr L, unhappy with the response, referred his complaint to our service for review.

An investigator here looked at everything and thought Creation should remove the adverse data on Mr L's credit file. He relied on evidence provided by Mr L's bank that Creation had set up two direct debits (one active, one dormant). The investigator believed Mr L had deleted the dormant one, which generated a request for Creation to cancel that instruction – but instead Creation had cancelled the live direct debit.

The investigator didn't consider any further compensation was due as Mr L hadn't updated his contact details with Creation. If this had happened, then Mr L would've been alerted to the situation and been able to put things right before incurring any adverse effects on his credit file. He also commented that Mr L hadn't been able to demonstrate the mortgage application had been declined solely because of the missed payment entries.

Mr L accepted the investigator's view, but Creation didn't. In summary it said:

- It believes the inactive direct debit instruction Mr L saw on his online banking was the original instruction set up at the start of the agreement when he was with a different bank.
- It doesn't know why a mandate referencing a previous direct debit instruction with a different bank was showing up on his online banking with his current bank.

- The report received from Mr L's bank in 2018, which contained the request to cancel the instruction, provided his current sort code and account number.
- There wasn't a mandate number or other reference on the report that would have enabled Creation to distinguish that request related to the original direct debit instruction (now inactive). Creation only had one on its system, so cancelled that.
- Why did Mr L's bank send through a cancellation request for an inactive direct debit instruction?
- It speculated that the reason there were two direct debit instructions (one active, one inactive) could have something to do with the switch from his old bank, and the way his current bank processed it.

my findings

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

We've asked lots of questions of both Creation and Mr L's bank in order to determine what went wrong here. Having reviewed the submissions from both businesses it's still unclear if either made an error, or whether limitations in the systems through which they communicate are to blame.

Now that both businesses are aware of the issue, I hope they will work together to find a solution. But I don't think the question of whether Creation or his bank is at fault matters for the outcome of Mr L's complaint as it's clear Mr L wasn't at fault. So I need to decide if Creation has treated Mr L fairly in recording missed payments on his credit file – and I don't think it has.

From everything I've seen, I don't think Mr L did anything wrong when he deleted an inactive direct debit instruction on his online banking. He hadn't intended to stop paying towards his finance agreement with Creation. And he made up the missing amounts as soon as he realised what had happened. It was likely a mis-communication of some kind between Creation and Mr L's bank that resulted in the live direct debit instruction being cancelled.

So I don't think the missing payment entries are a fair reflection of how Mr L has managed the account or his ability and willingness to repay the borrowing. For this reason, I think it's fair and reasonable that any adverse data in relation to those missed payments should be removed from his credit file.

Mr L complained that this adverse data on his credit file resulted in him being declined for a better rate on his mortgage – and so wanted to be compensated for the resulting loss.

But I don't think Mr L updated Creation with his new address until it was too late. If the address had been updated, he would've likely received the letters Creation sent – and would've been able to reinstate his direct debit before his credit file was affected. I've also considered that I don't think Creation could have known there was a problem with communication between it and Mr L's bank until Mr L raised his concerns. It had acted in good faith on instructions it received from the bank. So for all those reasons I don't think it would be fair for Creation to compensate for any additional costs or inconvenience Mr L might have incurred as a result of the mix-up with the direct debit.

my final decision

For the reasons given above I uphold this complaint, and direct Creation Financial Services Limited to remove the missed payments recorded on Mr L's credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 11 December 2019.

Tero Hiltunen
ombudsman