

complaint

Ms S has complained that Prac Financial Limited ("Prac") entered information incorrectly onto her credit file, as well as carrying out an unnecessary soft trace. She has also complained about the service provided.

background

In December 2016 Prac acquired a debt owed by Ms S from the original lender. On the same day it instructed a debt collection agency to recover the outstanding debt. The debt collectors then carried out an address verification trace on Ms S's credit file.

Ms S contacted the debt collectors at the end of December and arranged to pay the debt in full, which she did at the end of January 2017. She sent the debt collectors and the original lender an email on the same day advising the debt was paid and asked for her credit report to be updated as quickly as possible as she wanted the balance to show as cleared prior to making a mortgage application.

Ms S complained to the debt collectors in January 2017 about a "trace search" that was carried out on her credit report in December 2016. She asked for it to be removed from her credit file.

In March 2017 the debt collectors sent a final response letter to Ms S in relation to the trace search and about Ms S not being notified that it had been appointed as debt collectors. It said the "soft search" was carried out as a part of address verification, under the terms of Ms S's original loan agreement and that her credit file wasn't affected. It also confirmed it wrote to her in December 2016 advising it was now representing Prac.

In July 2017 Ms S contacted the debt collectors and said an entry had just been made on her credit report in relation to the account she settled in January 2017. This listed the account as being in an "arrangement to pay" with a zero balance. Ms S complained to both Prac and the debt collectors that this should have been recorded as "settled". She was concerned this error would have an impact on her credit status. Ms S also complained again about the trace search carried out by the debt collectors.

The debt collectors responded to Ms S's complaint in July 2017. It reiterated that the soft search was carried out as part of address verification and wouldn't affect her credit file. In relation to how the account was recorded, the debt collectors said it was the previous owner of the loan who reported it as being in an arrangement. Prac just reported the payment against the existing credit status. The debt collectors confirmed the matter would be reported as settled and closed on 10 August.

Ms S was unhappy with the response from the debt collectors and complained to us about both it and Prac. She confirmed that the account was now registered as settled but said the incorrect entry had an impact on several loan applications made by her, including a joint mortgage. She said she was forced to accept a higher rate of interest for each of the loans and asked to be compensated for this. She also wants to recover the cost of phone calls made and wants to be compensated for the time this has taken to sort out and for the distress caused.

Our investigator upheld Ms S's complaint in part. She said soft searches do not affect a business' decision to lend and so Ms S has not been disadvantaged by having this search

carried out. Our investigator also said that Prac should have recorded the account as settled but there's no evidence to support the assertion that the arrangement to pay (with a £0 balance) was the primary reason lenders either declined credit or offered it at a higher rate of interest. However, Prac's failure to record the information on Ms S's credit file correctly caused some distress and inconvenience and Prac were asked to pay £200 compensation.

Both parties disagreed with the investigator's findings and so the complaint has been passed to me for a decision.

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've come to the same conclusion our investigator did, for broadly the same reasons. I've decided to uphold Ms S's complaint in part.

Before I explain why, I should emphasise that while I've taken note of all of the arguments and comments made, I've limited my response to the issue I consider to be central to this complaint. That is to say:

- whether the soft search carried out had any impact on Ms S's credit score
- whether the details of the loan account was incorrectly entered on Ms S's credit record following the account being paid in full
- whether how the loan account was recorded was the reason why Ms S had to accept higher interest rates on her borrowing

I'll look first at the complaint about the soft search carried out by the debt collectors. A soft search is an inquiry made on credit reports that is not visible to potential lenders. So, soft searches can be carried out any number of times without having any impact on credit scores. And because it doesn't have an impact on credit scores, it doesn't influence lending decisions made by businesses. So I'm satisfied that Ms S's credit score wasn't lowered and she was not financially disadvantaged by the soft search carried out by the debt collectors in December 2016.

Ms S also complained that Prac made an error in July 2017 when it updated the status of the loan she paid off in January as an "arrangement to pay" with a zero balance rather than as "settled". For its part, Prac says it recorded this information earlier than July and that it was the fault of the free credit check product being used by Ms S that she could not see the information earlier. So there is some confusion about when exactly the entry was made on Ms S's credit report. I am going to put this confusion to one side, as it doesn't affect the question of whether the entry was properly recorded.

In its response to Ms S's complaint, Prac said the original owner of the loan recorded the loan as being in an arrangement. Prac said it simply recorded the payment made by Ms S against this existing arrangement. This might well be the case (and I haven't looked into this) but I don't think that Prac should have done this. I take the view that as Prac now owned the debt, it was responsible for ensuring the status of the account was accurately recorded. And in this case I don't think the information was accurately recorded. Ms S had settled her debt in full and her credit report should have reflected this. When Ms S contacted Prac they took steps to amend the credit report entry to reflect what it should have been. And I don't think it would have done this if it thought the entry was already correctly recorded.

Ms S said she believes the way her loan was recorded by Prac had a negative impact on a mortgage and various loan applications made by her and resulted in her having to accept higher rates of interest than she would have otherwise been offered. Prac have said that it believes lenders would only have taken this entry into consideration if it had been recorded as being in “default” or “outstanding”. So it believes that how it recorded the account did not have a detrimental effect on Ms S.

The general view I take is there are no hard and fast rules about how information in a credit report impacts on decisions by lenders. Individual businesses can interpret credit reports in their own way.

Looking specifically at Ms S’s situation, Ms S’s mortgage broker said she was declined for one mortgage because of “*adverse credit...declined credit score*”. The broker also said that she approached a mortgage company offering a higher interest rate when she was told about “*some delayed payments and a pay day loan*” on Ms S’s credit report. So I think it’s fair to say that the missed payments with the original owner of the loan are likely to have been taken into consideration by lenders.

What the above means is that I am satisfied that there are a number of factors taken into consideration by lenders when they are making lending decisions. So it would not be fair to say that the entry made by Prac was the primary reason why Ms S was offered higher rates of interest on her loans.

Ms S has asked to be compensated for having to chase Prac to correctly update her credit file and for poor customer service provided in doing this. I agree that Ms S had to spend time and effort sorting this matter out and I think she should be compensated for the distress and inconvenience this is likely to have caused. And I can also see that Ms S was promised call backs on two occasions, albeit by the debt collectors acting on Prac’s behalf and that this did not happen. While I see this was a relatively minor service issue, it is a service issue nonetheless. At this stage the debt collectors were dealing with an issue that could only be actioned by Prac and so I take the view that Prac are responsible for all service related issues in relation to this complaint. I agree with the amount of £200 compensation suggested by our investigator.

my final decision

For the reasons I’ve given above, my final decision is that I uphold this complaint in part. I require Prac Financial Limited to pay £200 compensation to Ms S.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms S to accept or reject my decision before 25 May 2018.

Martina Ryan
Ombudsman