

## The complaint

Mr I complains that Morses Club PLC (Morses) has reported missed payment markers to the credit reference agencies which he says is inaccurate. Instead, Mr I says his credit file should show that he was on a payment arrangement while paying down the balance of his loan.

In order to put things right, Mr I wants his credit file updated.

## What happened

The inaccurate information Mr I says is being reported on his credit file, is connected with a loan that he took out on 31 January 2020. He borrowed £400 to be repaid over 34 weeks, leading to a weekly repayment of £20.

Mr I has had some problems repaying his loan and based on the most recent information from Morses, as of June 2022, Mr I owes Morses £10.

Following the inception of the loan, Mr I made his repayments until the beginning of March 2020 when he had repayment difficulties caused by the COVID-19 pandemic. The statement of account shows that payments restarted in June 2020, but Mr I reverted to paying £10 per fortnight.

It seems that at this time, Morses wasn't reporting any adverse credit file data to the credit reference agencies (CRA) possibly because it was taking on board the industry regulator's guidance on helping people who were affected by the pandemic.

During this time – from January – November 2020 Morses reports that Mr I's account was '0' months in arrears.

From December 2020, Mr I's £10 fortnightly payments continued, albeit there were occasions when payments appear to have been missed. Although Morses has supplied two statements of accounts. One has evidence of missed payments – the other doesn't. However, Morses reported that payments were missed, and that the account was in arrears. The credit file information Morses has supplied shows the following;

- December 2020 - '1'
- January and February 2021 – '2'
- March - June 2021 – '3'
- July – September 2021 – '2'
- October 2021 to June 2022 - '1'.

The number after the month and year denotes the number of months Mr I's loan account was in arrears. During this time, Morses was also updating the decreasing balance with the credit reference agencies.

Mr I complained to Morses about the missed payment markers because in his view, he says that these should be replaced with a marker which reflects that he was on an arrangement to pay.

Morses sent its final response letter on 28 April 2021 and it told Mr I, the information it had reported on his credit file was accurate and it therefore wasn't going to update it. Unhappy with this response, Mr I referred his complaint to the Financial Ombudsman Service.

Our adjudicator considered the complaint and upheld it. She firstly, said that she thought Morses had treated Mr I fairly during the COVID-19 pandemic and didn't make any recommendation for the period between the inception of the loan and November 2020.

However, she said Morses told her that as Mr I was on an informal payment arrangement then this didn't need to be reported to the credit reference agencies. But she didn't think Morses had treated Mr I fairly because an informal payment arrangement was agreed from December 2020 and the information Morses has reported didn't reflect this – so she said a payment arrangement needed to be noted on Mr I's credit file.

Mr I appears to have accepted the adjudicator's proposed outcome.

Morses didn't agree with the adjudicator's recommendation. In summary it said;

- Morses treated Mr I fairly once it was aware of the problems, he was having following the pandemic.
- After the end of the forbearance period, Morses reported the arrears to the credit reference agencies (CRAs).
- As Morses is a home credit provider it only offers informal arrangements and as this type of arrangement doesn't alter the agreement Mr I signed when he took the loan then the arrears will be reported to the CRAs.
- Having an informal payment arrangement to make reduced payments doesn't stop arrears showing on the account.
- Formal payment plans aren't offered and therefore can't be recorded with the CRAs.
- If Morses were to report a '0' to the CRAs this would suggest there were no arrears on the account, which isn't correct.

The adjudicator went back to Morses to explain why its comments hadn't changed her mind about the outcome of the complaint. She, mainly reiterating that the payment arrangement she had recommended would show other creditors that why Mr I had some problems repaying the loan balance, but he did so through a payment plan. In her view, this was an accurate reflection of the conduct of the account.

Morses then came back and reiterated the point that it only offers informal payment arrangements and therefore isn't required to report this to the CRAs.

Later, it provided some specific points it wanted the ombudsman deciding the complaint to consider;

- The information reported by Morses is accurate.
- It does not offer formal arrangements, and this has been agreed with the CRAs as no formal arrangement is in place this can't be recorded on the credit file.
- Morses made reference to some further guidance which said:

*"If the customer and lender have entered into a formal agreement to reduce the*

*monthly payment amount for a limited period of time, an A (Arrangement) flag must be reported on the account. Where a customer is granted a Formal arrangement to pay, the payment terms should be amended to the new agreed payments and the payment profile amended in line with that agreement. Any arrears that accrued against the original contract should continue to be shown by the appropriate status code prior to the date of the arrangement. An 'A' flag and the arranged monthly payment pertinent at that particular time should accompany this status code. In instances where smaller payments are accepted, but no formal re-scheduling of the agreement is made; an A flag should not be reported. In these cases the status code should be based on the new agreed rate, rather than the contractual rate.”*

- Given the above, Morses said at no point was the above agreed with Mr I and so the information reporting is accurate.
- The repayments over the period of time were not consistent and payments were missed. Therefore, even if a flag was added to show a repayment this would have to be removed and then re-added which could have a more detrimental impact on his credit file.

As no agreement has been reached, the case has been passed to me for a decision. After being allocated to me for consideration, I requested the adjudicator ask for some further information from Morses.

- Morses was asked about the apparent conflict between the guidance it has referred to CAIS 2007 compared to the Information Commissioner's Office (ICO) 'Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies'; but it said its previous explanation was sufficient.
- It re-iterates only formal payment arrangements can be reported with the CRAS.
- Morses didn't reschedule Mr I's loan agreement.
- Morses says that if it added the arrangement flag it would have to show this was broken as Mr I didn't always make all of his repayments. In its view, a mix of arrears and arrangements status codes would be considered more detrimental than what is currently reporting.

An updated statement of account and what information is being reported to the credit reference was also supplied.

### **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.

### **Pandemic support**

Due to the COVID-19 pandemic, in April 2020 the industry regulator – the Financial Conduct Authority (FCA) released guidance to lenders – such as Morses as to how they ought to deal with consumers who were having problems directly related to the pandemic.

In this case, I can see, from the notes that Morses was aware of Mr I's change in financial circumstances was as a direct result of the COVID-19 pandemic and I can see from this time that Mr I was making payments as and when he could, albeit the payments he did make were only half the amount of his contracted loan payments.

It then looks like from December 2020 a plan was put in place for £10 per fortnight. At this point, Morses started to report arrears to the CRAs as described earlier on in this decision.

However, for the period up until this plan – I consider the actions of Morses to have been fair and reasonable and I say no more about this period. Instead this decision will focus on the arrears that Morses has been reported to the CRAs.

### ***Adverse credit file data***

Firstly, I can see from Mr I's credit file that the arrears start at 1, then increase to 2 and 3 before returning to 1 from October 2021- present. It isn't clear to me on what basis that has been done. Especially as the first statement of account does show the occasional missed or late payment under the plan. But I can't see at any point during the summer of 2021, when Mr I's arrears starts to decrease because Mr I had for example made extra payments or increased his payments.

Indeed, from the first statement of account, it seems from the end of July 2011, Mr I's payments are off sequence, in as much as they weren't made in the week they should've been paid. But then Mr I makes payment the following week – and then each two weeks after that.

It isn't clear, to me, given the issues with the repayments and no overpayments being made how the arrears increased before once again starting to decrease until the account was then one month in arrears and which has then been reported since November 2021.

However, notwithstanding my concerns about the number of months in arrears the account was I do have to consider that the Information Commissioner's Office (ICO) says about what should or shouldn't be reported.

The ICO is the body created which deals with an individual's data, and it has released a document called "*Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies*".

It is entirely reasonable to rely on this, because when determining a complaint, amongst other things, I am required to take into account good industry practice and in my view, these principles constitute good industry practice in this area.

I've included, what I consider to be the key passages from the guidance. A brief overview of the purpose of the guidance and who it is aimed at can be found towards the start when the guidance says;

*How CRAs operate is agreed with the ICO and the purpose of this document is to set out the principles under which information about arrears, arrangements and defaults are filed with the CRAs.*

*These principles will be of interest to regulators, lenders and consumers and their representatives.*

*The principles set out in this document have been reached after extensive consultation with the ICO, lenders, CRAs and trade associations. Adherence to these Principles will be periodically reviewed in line with the credit industry's data sharing governance procedures.*

So, it's clear, from the ICO, that this guidance is to be used by everybody when looking at whether the information reported to the CRAs is accurate.

Morses says that as a home credit provider, it isn't required to report informal arrangements to the CRAs but it is worth saying that the ICO guidance as currently published doesn't appear to provide such an opt out. The only change for home credit providers I can see is when the guidance says;

*Whilst most credit products are repaid monthly, some are not, such as home credit. In these cases, the information will be adapted to meet the monthly reporting standards of the credit reference industry.*

There is a footnote that goes with the above section which says;

*Home collected credit includes informal flexibility as standard to help debtors cope with unexpected budget pressures. In effect, the home credit agent can - during the weekly home visit - agree missed or part payments on the spot (normally at no extra cost). These informal variations are not themselves reported. However, when the debtor has - in aggregate - missed to the value of 4.33 weekly repayments (equivalent to one month's arrears), that is reported (as arrears). Only the larger home credit companies use the reporting agencies*

This may be the part that Morses refers to, when it says that only formal payment arrangements need to be reporting to the CRAs. However, the above is found in principle two, and while it does say an informal arrangement, these are clear that they are for unexpected budgetary pressures. While Mr I's agent may have agreed a new payment variation his difficulties had been ongoing for a significant period of time. So I think it's important to consider what principle three says.

Principle three starts by saying:

*If, due to financial difficulty, your lender agrees a reduced or revised payment with you, this will be reflected on your credit file.*

Given what we know about Mr I's situation, it is clear, that a revised plan will be reflected on his credit file. So, his request for a payment arrangement marker, is in my view not unreasonable.

The ICO then explains the two types of arrangement. Firstly, a permanent change, which isn't reflected in Mr I's case, because this would've involved for example a new credit agreement and possibly a new record on Mr I's credit file. Clearly, this hasn't happened in this case.

The second type is a 'temporary arrangement'. Below, I've quoted a lot from the guidance because I think its clear as to when the situation may arise and what should be report.

*Should a temporary reduction in the payment amount be jointly agreed between you and your lender, this 'arrangement' will be recorded at the CRAs.*

*This may also occur if there is a temporary change in terms (that is not part of the product) such as a payment holiday or change to interest only.*

*An arrangement may also be provided when a customer has agreed with the lender to make overpayments to clear historic arrears.*

*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.*

*The record must show that the account is the subject of special terms. The reporting of this fact may be different depending on the product and the CRA.*

So, the ICO clearly sees a situation, whereby a temporary plan is agreed, and the ICO guidance is clear that arrears may still be reported but that Mr I's record in this case should reflect that he was subject to special terms. I accept the principles do provide caveat about the product and the CRA but there is no formal opt out, as far as I can see for home credit providers.

Overall, taking into account the statement of account and the wording of the ICO principles, I'm satisfied that Mr I's account while almost repaid (and likely at the time of this decision fully repaid) the ICO is clear that this account should be marked with the CRAs as being under special terms – such as an arrangement to pay flag / marker.

It also, isn't clear, as far as I can see from the ICO guidance that says that Moses couldn't or can't report an informal arrangement. It also isn't clear how Moses view of an informal payment plan fits within the two types of plan that the ICO outlines.

Therefore, thinking about the conduct of the account and the ICO guidance I'm going to be upholding Mr I's complaint and I've outlined below what Moses needs to do in order to put things right for Mr I.

### **Putting things right**

It is worth saying here that Mr I has asked for his credit file to accurately reflect the way in which he has repaid the loan. Which given the balance at the end of June is likely to have been satisfied in July 2022.

I want to make it clear, that even if Moses does what Mr I says it should do, that doesn't guarantee any improvement in his credit score.

Only, what I'll be asking Moses to do is to make amendments to his credit file in order to show that this loan was being repaid through a repayment plan and so the relevant markers should be added to Mr I's repayment history.

Therefore, Moses needs to reflect that Mr I's loan was repaid a payment arrangement in its reporting to any CRAs.

### **My final decision**

For the reasons I've explained above, I'm upholding Mr I's complaint.

Moses Club PLC should put things right for Mr I as outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 25 August 2022.

Robert Walker  
**Ombudsman**