

The complaint

Ms S complains about the way Mercedes-Benz Financial Services UK Limited ('MBFS') responded to her financial difficulties in respect of a hire purchase agreement she took out with it.

What happened

The parties are familiar with the background details of this complaint – so I will briefly summarise them here. It reflects my informal remit.

Ms S took out a hire purchase agreement with MBFS in April 2019 with monthly payments of £859.60.

Ms S says that during the pandemic her circumstances changed and she could not afford to pay for the car finance.

Ms S contacted MBFS for help and it gave her a payment deferral. Ms S then accepted a Voluntary Termination (VT) of the finance agreement.

Ms S says MBFS did not respond to her difficulties in the best way, for example, it did not give her all the options it could have, and it chased her for payments when it had previously said she owed nothing.

Ms S says the actions of MBFS caused her a lot of stress during a difficult time in her life – and she has now lost the car which she paid a significant amount of money toward.

MBFS admitted its customer service could have been better. To put things right it offered to:

- Write off the arrears on the account and remove late payment markers for the payment deferral period; and
- pay Ms S £700 compensation.

Ms S says this does not go far enough – she wants more compensation as she says she should have been able to keep the car and continue on a reduced payment plan – instead she was offered VT which has meant she no longer has the car.

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.

While I might not comment on everything (only what I consider key) this is not meant as a discourtesy to either party – it reflects my role resolving disputes informally.

Payment difficulties and deferral

From what I can see Ms S approached MBFS around April 2020 to tell them she was having difficulties paying for the car finance due to a change in household income. As a result it

agreed to a payment deferral that started at the end of April– which ended up going on for about seven months.

On the face of it, MBFS offering Ms S a payment deferral is acting positively and sympathetically to her circumstances. I say this noting that the FCA's guidance on COVID-19 payment deferrals is that these are to provide 'exceptional and immediate support' to customers facing difficulties 'for a temporary period only'. I also say this noting that Ms S (from what she has said) clearly wanted to try and keep the car, and a payment deferral (rather than another option like VT) would have enabled her to keep using the car at the time.

I note the FCA guidance talks about periods of deferral being '3 months' – and I recognise that longer periods of deferral will result in more accrued arrears. So there should fairly be some exploration by a financial business as to whether a deferral, or an ongoing deferral beyond 3 months, is in the customer's best interests (as opposed to other options).

I note MBFS has recognised that it didn't really explore alternative options to a deferral – such as a reduced payment plan. And that it didn't engage with Ms S to fully understand her situation and get better support in place to help alleviate some of her concerns about the ongoing accrual of debt as a result of the deferral.

I note MBFS has said as part of a resolution to the complaint it has forgiven all the arrears that built up as a result of the deferral. So, I find there is no financial loss to Ms S as a result of its actions in selecting a deferral over this period. But I can see how MBFS not exploring other options or truly engaging with Ms S caused her unnecessary stress at the time.

What added to Ms S's stress was also some apparent misinformation and administrative error during the payment deferral period. MBFS has admitted that because of delays processing payment deferral periods it debited the May 2020 monthly instalment (which had to be claimed back via direct debit indemnity) and tried to take the October 2020 monthly instalment by mistake.

I also note Ms S has said that when she enquired about VT MBFS told her she had paid enough to VT the agreement without further liability – but it then asked her to pay another instalment (and sent an arrears notice for this). I am not completely clear what occurred here as MBFS has indicated to this service that this was what Ms S did need to pay to VT, but also indicated elsewhere it was a mistake. Either way the amount has been written off now. But from what Ms S has said (and the letter she sent MBFS about it in Jan 2021) along with the lack of clarity from MBFS on the issue, I think MBFS likely led Ms S to believe she had nothing further to pay to VT the agreement – but then chased her for an extra amount in error.

The issues with being asked for payments or having payments taken unexpectedly no doubt caused Ms S added and unnecessary stress during a very difficult time in her life. I also see that MBFS accepted that it made some other admin errors on top of these – which would have contributed to this distress too.

Ms S has described her personal circumstances leading up to when she contacted MBFS for help and during the time she was in a payment deferral– I am sorry to hear about what she has been through. No doubt the customer service failings by MBFS added to this distress.

It is not a science determining compensation – but I have noted here that there were multiple failings by MBFS and the impact of this went on over an extended period of time. Ms S has also described the level of distress this has caused her and I consider this to be significant. In order to determine fair compensation I have considered the guidance on our website

about awards for distress and inconvenience. However, I have also taken into account the fact that:

- part of the offer of overall compensation from MBFS involves forgiving the arrears built up during the payment deferral period - which is a significant amount of money (in excess of £5,000);
- MBFS has apologised for what occurred; and
- MBFS was ultimately not responsible for what was going on in the background that contributed to the overall distress Ms S was suffering during this time.

Taking into account all these factors, I think that it would not be fair and reasonable in the particular circumstances to ask MBFS to pay Ms S more.

Voluntary Termination

It appears that Ms S agreed to VT the agreement in December 2020. Ms S has more recently focused on the fact that she feels MBFS should have given her more options than VT. She says she wanted to keep the car and come to an affordable payment arrangement.

From what I have seen I don't think that offering Ms S VT was unreasonable. I don't think there was a reasonable prospect of Ms S getting back to full monthly payments at the time. I note that her January 2021 letter to MBFS describes her financial situation – and I think this underlines that she wasn't in any position to start repaying her usual rentals. I know Ms S has talked about paying a reduced amount of £300 a month for the foreseeable future – but this is considerably less than her full rentals. Noting she already had a 7 month payment deferral period, and considering that the car was being hired as MBFS's depreciating asset it was not unfair to expect Ms S to either hand it back or show she is able to return to full payments. Nor would it have been in Ms S's best interests to continue accruing more arrears debt indefinitely when there was a way of stopping this. I know Ms S has indicated she could have paid off the agreement in a year or so from that point due to a lump sum she was expecting in the future– but I don't think it would have been reasonable to expect MBFS to wait this long in the particular circumstances here.

I also note that an added complication around the time of termination was that Ms S appears to have informed MBFS that her ex-partner had stolen the car which she was thinking of contacting the police about. This feasibly could have ended up with MBFS terminating the hire purchase agreement and repossessing the vehicle, leaving Ms S having a potential further liability in respect of the outstanding debt under the hire purchase agreement. In the circumstances VT appeared to be the preferable option – and resulted in Ms S not having any further liability on termination.

Overall, I am sorry to hear about the personal circumstances that resulted in Ms S exiting the agreement. But overall I don't consider that MBFS has acted unfairly in respect of the termination of the agreement – specifically via the option of VT.

I note that MBFS has mentioned something about an arrangement it has with Ms S for paying end of contract charges on return of the vehicle. I make no finding on this as it is not part of the subject matter of this complaint. However, I remind MBFS that it needs to treat Ms S positively and sympathetically in respect of any monies owed.

Putting things right

If MBFS has not already done so it should carry out what it has offered to do as I have set out below.

My final decision

Mercedes-Benz Financial Services UK Limited should:

- Pay Ms S £700 compensation; and
- ensure that it has written off any arrears owed under the hire purchase agreement in respect of monthly payments and removed late payment markers for the deferral period.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 1 October 2024.

Mark Lancod
Ombudsman