

## **The complaint**

Mr H complains Temple Finance Limited (trading as PerfectHome) lent to him irresponsibly.

## **What happened**

Mr H entered into four finance agreements with PerfectHome to acquire electronic goods. In February 2017, Mr H entered into an agreement to acquire a smart phone with a cash price of £796. The term of the agreement would last 104 weeks, with a total weekly repayment of £17.16, including an extra payment towards insurances.

In March 2017, April 2017 and May 2017, Mr H entered into three separate agreements to acquire identical high-end laptop computers, each with a cash price of £1,120. The term of each agreement would last 104 weeks (from their respective start date), have a total weekly repayment of £25.45, inclusive of the extra payments towards insurances. By the fourth agreement, Mr H would repay over £93 a week for the goods and insurances.

Mr H complains PerfectHome didn't complete proper checks and had it done so, it would've seen that he couldn't afford these finance agreements. Mr H says his credit file would've shown several defaulted accounts, accounts in arrears and active county court judgements. Mr H adds that his financial situation got worse because of PerfectHome providing these finance agreements.

Mr H also complains PerfectHome insisted he took out its insurances, otherwise his application would've been rejected.

PerfectHome disagreed these agreements were unaffordable or that it had insisted Mr H take its insurance products. PerfectHome say they carried out a number of checks before approving the finance agreements. These included assessing Mr H's income and expenditure and verifying the information with external agencies. PerfectHome add that for the first agreement, it also validated the information Mr H declared against the transactions showing on his bank statements.

PerfectHome explained that a condition of taking out these finance agreements was that Mr H needed insurance to cover theft and accidental damage. It added Mr H had the option to take out his own insurance or through PerfectHome and he should reasonably have understood its insurance was optional.

As a gesture of goodwill, PerfectHome offered, should Mr H now return all the goods in a reasonable condition, it would write off the balances he owed. Our investigator checked whether the offer was still open for Mr H to accept. But when she put it to him, Mr H explained his financial predicament had forced him to sell on the items. So, the investigator went to look into the merits of the complaint.

Our investigator thought Mr H's complaint should be upheld and recommended what PerfectHome should do to put matters right. She recommended PerfectHome should:

- add up the total cash price of the items that Mr H acquired under these agreements,

- excluding the insurances that he purchased alongside the item;
- then add up the repayments that Mr H made towards these agreements, including any payments towards the insurances;
- add 8% simple interest to the payments toward the insurances;
- deduct the total repayments and simple interest from the balance of the total cash price of the items.

If this resulted in Mr H having paid more than the cash price of the items that he acquired, then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement).

But if Mr H still owed any of the original cash price of the items, then PerfectHome should arrange an affordable repayment plan with him.

PerfectHome should also remove any negative information recorded on Mr H's credit file regarding these agreements.

PerfectHome accepted the recommendation and agreed to settle the complaint on this basis. It calculated that Mr H still owed £3,291 for the items.

But Mr H disagreed with the way the complaint should be settled – he thought PerfectHome should write-off his debt. So, this complaint has been passed to me to make a decision.

### **What I've decided – and why**

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We've set out our approach to complaints about unaffordable and irresponsible lending on our website. And I've taken this into account in deciding Mr H's complaint. Having done so, I agree with the outcome put forward by the investigator and for much the same reasons.

Under the relevant regulatory framework, PerfectHome was obliged to lend responsibly. This meant that it had to reasonably assess whether Mr H could afford to meet the repayments in a sustainable way over the relevant term. And so, the assessment of Mr H's circumstances had to be 'borrower-focused' – which means that, while PerfectHome wasn't prevented from assessing its own risk as a lender, it also had to assess the risk to Mr H.

The circumstances in which it's reasonable to conclude that a less detailed affordability assessment is reasonable and proportionate are more likely to be limited to applicants whose financial situation was stable and whose borrowing was relatively insignificant given their overall financial circumstances. But given the size of the lending and the goods acquired between February and May 2017 alongside Mr H's wider financial circumstances like his income and outgoings for example, I don't think the lending was insignificant to Mr H.

PerfectHome, before agreeing to lend Mr H his first item, verified aspects of his income and expenditure by asking him for bank statements. But on their own, his bank statements would not show any payments falling due and going unpaid – in the way that a full review of Mr H's credit file alongside his statements could. And there were areas of concern that ought to have prompted PerfectHome to take a closer look, for example, recurring £1 payments towards a debt collector showed on Mr H's bank statements.

I appreciate PerfectHome says it did search Mr H's credit file but hasn't retained a copy. It also said it wouldn't have lent if negative information such as insolvency showed on the credit file. Of course, I can't now see for certain whether PerfectHome's searches went beyond looking for insolvency markers. But I'm not convinced they did given its product was aimed at a market segment with reduced access to mainstream credit providers because of problems with repaying credit. So, without a more thorough understanding of Mr H's financial circumstances, I'm not persuaded that PerfectHome carried out reasonable and proportionate checks.

Mr H has supplied a copy of his credit file showing information available to PerfectHome between February and May 2017. It shows six unsettled defaults, with one as recent as December 2016, another with a utility supplier from 2015, and that he had fallen into arrears on a bank loan and overdraft facility. It also shows that he had between one and six months arrears on no fewer than six separate mobile communications accounts. Indeed, given his modest income and financial circumstances, it begs the question why Mr H approached PerfectHome for another smart mobile phone. But given both parties now agree it was irresponsible for PerfectHome to lend, I've not considered this question further, suffice to say Mr H was clearly already in financial difficulties.

With this being the case, I think that reasonable and proportionate checks are likely to have demonstrated that Mr H would not have been able to make his repayments sustainably. And if PerfectHome knew, as I think it ought to have, that Mr H wasn't able to repay the borrowing sustainably, I'm also not persuaded that it should have lent to him.

### **Putting things right**

Although both parties now agree it was irresponsible for PerfectHome to lend, they disagree on how to right the situation. On the one hand, PerfectHome accepts our investigator's recommendation that it removes all fees, insurances and charges so that Mr H only repays cash price of the items he acquired. On the other hand, Mr H believes as PerfectHome lent irresponsibly, the lender should write-off his debt to it.

When I find that a business has done something wrong, I'd normally direct that business – as far as it's reasonably practicable – to put the complainant in the position they would be in now if the mistakes the business made hadn't happened.

In this case, that would mean putting Mr H in the position he would now be in if he hadn't entered the finance agreements in question. I note PerfectHome's terms allow Mr H to hand back the items in a reasonable condition in lieu of all amounts owing to the lender. However, this isn't straightforward in this case. Mr H was given the items and he sold them.

In these circumstances, I can't undo what's already been done. So, it isn't possible to put Mr H back in the position he would be in if he hadn't been loaned the items in the first place.

Instead, I must consider another way of putting things right fairly and reasonably given the circumstances of this complaint. I think the overarching principle here is that neither party should profit from the irresponsible lending. So PerfectHome can't benefit by adding interest to the debt, or sundry insurance sales. And in the same way, Mr H can't benefit from use of the items, the sums he received on their disposal and expect the debt wiped – he's had the money for the items he borrowed and it's fair that he should pay it back.

The approach to complaints about unaffordable lending set out on our website includes how to put things right. It explains that if a borrower has a complaint upheld and there's still an outstanding balance on the credit, we'll usually tell the lender to remove all the interest and charges applied from the start. This effectively what PerfectHome has agreed to do and it

leaves Mr H owing £3,291 towards the cash price of the items. I'm satisfied this is a fair way to settle this complaint. PerfectHome should set up an affordable payment plan for Mr H.

I also think it is fair for PerfectHome to remove adverse information recorded about the finance agreements in question. So, once Mr H has repaid the outstanding balance, PerfectHome should remove any negative information recorded on Mr H's credit file as a result of the unaffordable lending.

In summary, PerfectHome should set up an affordable payment plan for Mr H and once the debt is settled, it should remove any negative information recorded on Mr H's credit file.

### **My final decision**

For the reasons I've explained, I uphold Mr H's complaint and direct Temple Finance Limited (trading as PerfectHome) to put things right for Mr H in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 7 December 2021.

Stefan Riedel  
**Ombudsman**