

Complaint

Miss B says Temple Finance Limited (trading as “Perfecthome”) irresponsibly lent to her.

Background

This complaint is about five Rent-to-own agreements Perfecthome entered into with Miss B. The agreements were to purchase household goods. Agreement 1 started in October 2008. Agreement 2 started in November 2010. Agreement 3 started in January 2016.

Our adjudicator partially upheld Miss B’s complaint and thought that Perfecthome ought to have realised that agreements 3 to 5 were simply unsustainable for Miss B. Perfecthome didn’t respond and the complaint was passed to me.

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 set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Miss B’s case.

Perfecthome needed to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss B could afford to make her weekly repayments in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer’s income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Perfecthome should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer’s income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Our adjudicator set out in some detail why he thought Perfecthome unfairly ought to have realised that Miss B wasn't in a position to sustainably make the repayments on agreements 3 to 5. As Perfecthome didn't respond, I don't know what it thinks our adjudicator got wrong.

Nonetheless I've taken my own look at Miss B's case and decided what I think is fair and reasonable.

Having done so, I also think that Perfecthome shouldn't have entered into agreements 3 to 5 with Miss B. I say this because given the amount being lent and the length of time Miss B was being expected to make payments for meant that it would have been reasonable and proportionate to get some idea of her income and expenditure. This is especially the case for agreements 4 and 5 which were entered into within weeks of each other and significantly increased Miss B's weekly commitment to Perfecthome.

If Perfecthome had done this, it would have seen Miss B had only recently been discharged from a bankruptcy. She'd also had significant difficulties making her payments to agreements 1 and 2. So Perfecthome ought to have realised Miss B had already faced a struggle attempting to sustainably repay what she owed and that there was a significant risk providing her with further credit in these circumstances would lead to her indebtedness increasing unsustainably.

I think that Perfecthome's actions unfairly increased and prolonged Miss B's indebtedness by giving her credit she couldn't afford over an extended period of time and the interest, warranties and insurances added got her into further debt. So Perfecthome should put things right.

Fair compensation – What Perfecthome needs to do to put things right for Miss B

Having carefully considered everything, I think that it would be fair and reasonable in all the circumstances of Miss B's case to put things right in the following way:

- Perfecthome has already taken some steps, in relation to the balance on agreement 3, in order to put things right. I'm satisfied that what it did before closing this account was fair and reasonable. But Perfecthome now also needs to remove any adverse information recorded on Miss B's credit file as a result of agreement 3;
- rework the balances on agreements 4 and 5 to ensure that Miss B only pays the selling price of the goods concerned. This means that all interest, warranty amounts, insurance premiums and any late payment and over limit fees should be removed. The payments Miss B made should then be deducted from the new starting balance (in other words, the selling price of the goods);

AND

- if the effect of removing all interest, warranty amounts, insurance premiums and any late payment and over limit fees results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss B, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Perfecthome should remove any adverse information from Miss B's credit file.†

OR

- if an outstanding balance remains on either of the agreements once these adjustments have been made Perfecthome should contact Miss B to arrange suitable repayment plans. Perfecthome should remove any adverse information from Miss B's credit file if and when she clears the outstanding balance.

†HM Revenue & Customs requires Perfecthome to take off tax from this interest. Perfecthome must give Miss B a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons set out, I'm partially upholding Miss B's complaint. Temple Finance Limited should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 8 October 2021.

Jeshen Narayanan
Ombudsman