

## **The complaint**

Mr T says Home Retail Group Card Services Limited ("Home Retail Group"), trading as Argos Financial Services, irresponsibly lent to him. He has requested that the interest and late payment charges he paid on his account be refunded.

## **What happened**

This complaint is about an account provided by Home Retail Group to Mr T. The account was opened in October 2010 with Mr T being given an initial credit limit of £1200. The credit limit was increased three times, first to £1800 in July 2011, to £2700 in September 2012 and then to £3000 in June 2019.

The account fell into arrears in September 2018 and it was then frozen.

Mr T says that Home Retail Group shouldn't have allowed him to open an account given that he had defaults with other creditors. He's also unhappy that it increased his credit limits and says by doing so it worsened his financial position.

Our adjudicator thought that Home Retail Group ought to have realised that he wasn't in a position to sustainably repay any further credit on either account from August 2013. But having received further details about the account from Home Retail Group, our adjudicator thought that point was likely reached in July 2011. Home Retail Group has disagreed, saying it no longer has access to information about the checks on the account it would have carried out at that time and that based on the information available appropriate checks were carried out.

The complaint has therefore been passed to me.

## **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.

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.

Home Retail Group 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 Mr T could afford to repay what he was being lent 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 Home Retail Group 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 has set out in some detail why he thought Home Retail Group shouldn't have provided Mr T with any additional credit from July 2011 onwards. Home Retail Group didn't agree with what our adjudicator said.

Nonetheless, I've also looked at the overall pattern of Home Retail Group's lending history with Mr T, with a view to seeing if there was a point at which Home Retail Group should reasonably have seen that further lending was likely unsustainable, or otherwise harmful. If so, that would mean Home Retail Group should have realised that it shouldn't have continued increasing Mr T's credit limit on his account.

Having reviewed the complaint in detail, I've decided to partially uphold this complaint and on the same basis as our adjudicator. I will explain why.

Home Retail Group says that when Mr T opened his account checks were carried out to see if there were signs of financial difficulties and there were no affordability or risk concerns. From the bank statements Mr T sent us, I don't think there is enough to suggest that it would have been unreasonable for Home Retail Group to have approved the account opening. I don't know if Home Retail Group asked Mr T about his income at the time, which is something that may have helped it begin to build a picture of Mr T's overall financial circumstances. But from what I've seen, if it had there's not enough for me to say that the account wouldn't have been approved.

I've seen that at the time that Mr T's credit limit was increased to £1800 in July 2011 Mr T had been consistently using a significant part of his £1000 bank overdraft facility, often taking it almost up to the maximum limit. At the same time I've seen his monthly income was averaging at around about £1200. And when Mr T's account went into credit it was only for short periods, typically after he'd been paid. So, taking this into consideration the funds Mr T had coming in, it seems to me likely that each month Mr T was left with no or very little disposable income whilst incurring overdraft interest charges most of the time. At the same time he was having to find funds meet his essential living and housing expenses, including his mortgage. I therefore think that had Home Retail Group carried out reasonable and proportionate checks at this point in time they likely would have shown or suggested Mr T was in no position to take on extra borrowing.

It follows that, having looked at what we know about Mr T's financial situation and his lending history with Home Retail Group and elsewhere, I'm in agreement with our

adjudicator that by July 2011, when his credit limit was increased to £1800, Home Retail Group should reasonably have seen that any further lending was likely to be unaffordable, or otherwise harmful for Mr T.

So I think that Mr T lost out because Home Retail Group increased his credit limit in July 2011. The result of that was that Mr T's financial situation worsened as he increased his borrowing. I therefore think Home Retail Group ought to have realised that there was a significant risk that increasing Mr T's credit limit in these circumstances would lead to his indebtedness increasing unsustainably, worsening his already difficult financial situation.

It follows that Home Retail Group should put things right.

### **Putting things right – what Home Retail Group needs to do**

- Rework Mr T's account to ensure that from 1 July 2011 onwards interest is only charged on balances up to the total credit limit of £1200, including any buy now pay later interest, (being the credit limit that was in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made Home Retail Group should contact Mr T to arrange an affordable repayment plan. Once Mr T has repaid the outstanding balance, it should remove any adverse information recorded on Mr T's credit file from 1 July 2011.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr T, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Home Retail Group should also remove any adverse information from Mr T's credit file from 1 July 2011 onwards.†

†HM Revenue & Customs requires Home Retail Group to take off tax from this interest. Home Retail Group must give Mr T a certificate showing how much tax it's taken off if he asks for one.

### **My final decision**

For the reasons set out, I'm partially upholding Mr T's complaint. Home Retail Group & Company Limited should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 10 May 2022.

Michael Goldberg

**Ombudsman**