

The complaint

Mr M complains that Home Retail Group Card Services Limited trading as Argos Card (“HRG”) acted irresponsibly when they agreed to provide him with a credit card and later increased his credit limit.

What happened

In or around September 2015, Mr M submitted an online application to HRG for a credit card account. HRG assessed his application and agreed to provide the card and account with an initial credit limit of £400.

In July 2017, HRG offered to increase the credit limit on Mr M’s account to £600. This new limit was applied to Mr M’s account in August 2017.

In January 2018, HRG offered to increase the credit limit on Mr M’s account again to £900. This new limit was applied to Mr M’s account in February 2018.

Following a period where Mr M was suffering financial difficulties and struggling with what he owed, HRG sold Mr M’s outstanding debt with them to a third-party company.

In or around March 2021, Mr M submitted a complaint to HRG. He told them he’d been experiencing financial difficulties and thought HRG’s decision to provide him with a credit card and later increase his account limit meant they’d acted irresponsibly. Mr M thought there was a point that HRG should’ve stopped his account based upon his income to debt ratio.

Mr M thought HRG’s actions had led to him defaulting on other credit facilities. He wanted them to refund all interest and charges, remove any adverse information they’d reported on his credit file and consider writing off his remaining debt.

In their response to Mr M’s complaint, HRG didn’t agree they’d acted irresponsibly when agreeing to provide him with a credit card and later increasing his credit limit. So, Mr M decided to refer his complaint to this service.

Have complete their investigation, our adjudicator didn’t think HRG had acted irresponsibly when they first agreed Mr M’s credit card account. But they did think there was sufficient to have prompted HRG to complete further checks and tests before they increased Mr M’s limit in August 2017 and February 2018. Had those checks and tests been completed, our adjudicator thought it would’ve revealed that Mr M didn’t have sufficient sustainable income to support the limit increases.

Our adjudicator thought HRG should refund any interest and charges incurred as a result of the limit increases they granted beyond the initial £400 limit. And if, after refunding these, it results in Mr M having repaid more than he owes them, HRG should refund any overpayment together with 8% simple interest on that amount. Our adjudicator also suggested HRG should make changes to the information reported on Mr M’s credit file once any remaining balance has been repaid.

HRG didn’t agree with our adjudicator’s findings. They said they’d provided this service with details of all the checks they’d completed together with copies of letters they’d sent to Mr M before increasing his limit. They said they’d completed their internal checks and didn’t believe they’d acted irresponsibly.

As an agreement couldn't be reached, Mr M's complaint has been passed to me to consider further.

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 approach to unaffordable or irresponsible lending complaints on our website and I've considered this when deciding Mr M's complaint.

The rules and guidance relevant at the time were set by the Financial Conduct Authority (FCA) in the Consumer Credit Sourcebook (CONC). These required HRG to carry out an assessment using reasonable and proportionate checks to determine whether Mr M could afford to repay the credit card in a sustainable way. Those checks needed to be borrower focussed and consider whether making the repayments could result in financial difficulties for Mr M.

This service believes that any checks needed to consider Mr M's personal circumstances and would usually need to be more thorough:

- the lower a consumer's income; and
- the higher the amount due to be repaid; and
- the longer the term of the debt; and
- the greater the number and frequency of debts.

Conversely, a less detailed affordability assessment, without the need for verification, is far more likely to be fair, reasonable, and proportionate where the amount to be repaid is relatively small, the financial situation appears stable, and the debt is for a relatively short period.

In cases where there isn't evidence that proportionate checks were carried out, I need to consider if those checks would likely have shown the credit was sustainably affordable.

HRG confirm they made appropriate checks with the credit reference agencies and assessed the information by their strategy at the time. They said they had no concerns and the decision to lend was justified. HRG also said they use affordability indicators to identify highly indebted consumers who are likely to experience an affordability challenge. They've provided details of the credit scores they used and confirmed these were within their risk appetite.

HRG are entitled to decide who they lend to and if they want to accept that risk. But that doesn't mean they don't have the same obligations as other lenders to perform borrower focused assessments that any lending they provide is affordable and sustainable.

Initial card application

Although HRG have provided their credit scoring details, I haven't been provided with details of what their credit searches revealed. So, to help me better understand his circumstances at the time, Mr M has provided a copy of his personal credit report. This shows a record of four credit card accounts with reported limits of around £1,450. There appears to be nothing adverse reported and no evidence of late or missed payments. So, having considered this, I don't think it was unreasonable for HRG to agree the application and provide the limit they did.

Limit increase to £600 in August 2017

Mr M's credit file shows an existing credit card limit appears to have been increased to £2,700 prior to HRG's increase. There's also evidence he'd taken two new loans totalling

£1,057 with monthly repayments of £26 and £19. But he appears to have had difficulty making those payments on time. One is reported as having late payments on five occasions between September 2016 and June 2017. The second was reported as having late repayments on six occasions between June 2016 and June 2017 and immediately preceding HRG's limit increase. So, I think there was sufficient to suggest further tests and checks should've been completed.

I've next considered what those test and checks might've revealed. Mr M has provided this service with copies of some bank statements from 2015 to early 2018. I think they provide a fair indication of Mr M's likely financial circumstances at the time.

The statements show he received a regular weekly income of £104 increasing to £140 by the middle of 2015. So, a total earned income of around £7,000 a year. There's also evidence of other irregular income that seems to derive from businesses specialising in the purchase of used mobile telephones. Mr M's credit file shows evidence of regularly taking new telephone contracts. So, Mr M may have been purchasing mobile phones under new contracts and selling them to generate cash. The statements also suggest Mr M's income was being fully utilised every month and there's evidence of direct debits being returned unpaid.

I'm persuaded Mr M's financial situation wasn't entirely stable. Particularly as he appears to have been trying to generate cash from selling newly contracted mobile phones. So, I don't believe a responsible lender, acting reasonably would have agreed to increase Mr M's credit limit in these circumstances.

Limit increase to £900 in February 2018

The credit file suggests Mr M continued to be late with repayments to the two loans mentioned above. There's evidence of three late payments on one and a further five on another. There's also evidence of further new credit limits and multiple bank account applications.

Given my findings above, I believe there was sufficient to suggest that further checks and tests were appropriate here also. And as I've seen no evidence to suggest Mr M's financial circumstances had improved, I'm persuaded that a further limit increase doesn't appear to have been appropriate either.

Putting things right

As I don't think HRG should've increased Mr M's credit limit from £400, I don't think it's fair for them to charge any interest or charges on any balances which exceeded that limit. However, Mr M has had the benefit of all the money he spent on the account. So, I think he should pay this back. Therefore, HRG should:

- Rework the account removing all interest and charges that have been applied to balances above £400.
- If the rework results in a credit balance, this should be refunded to Mr M along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. HRG should also remove all adverse information recorded after 2 August 2017 regarding this account from Mr M's credit file.
- Or, if after the rework the outstanding balance still exceeds £400, HRG should arrange an affordable repayment plan with Mr M for the remaining amount. Once he has cleared the outstanding balance, any adverse information recorded after 2 August 2017 in relation to the account should be removed from his credit file.

As HRG has sold the debt to a third party, it should arrange to either buy back the debt or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires HRG to deduct tax from any award of interest. It must give Mr M a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons set out above, I uphold Mr M's complaint. I require Home Retail Group Card Services Limited trading as Argos Card to provide a resolution as I've laid down above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 December 2022.

Dave Morgan
Ombudsman