

The complaint

Mr C says Freemans Plc irresponsibly lent to him.

What happened

Mr C took out three catalogue shopping account from Freemans in April 2017, July 2017 and February 2018. He received a number of credit limit increases on all three accounts. When the accounts fell into arrears Freemans sold the debt to a third party.

Mr C complained to this service saying Freemans did not do enough to check the credit was affordable for him, he was already in financial difficulties.

Our investigator upheld Mr C's complaint in part, saying Freemans should not have provided any of the credit increases from 1 August 2018 onwards. He then set out what Freemans must do to correct its failings.

Freemans accepted this assessment and agreed to put things right in line with the investigator's instructions. It sent Mr C details of what this meant for him.

Mr C accepted the assessment about which parts of the lending was irresponsible, but he disagreed with what Freemans must do now. He said either Freemans must buy back the debt from the third part and agree to an affordable repayment plan, or it must pay him the refund directly and he will liaise with the third party.

Our investigator explained that Freemans had followed the settlement he had awarded and it was allowed to apply the refund of the interest and charges to reduce the outstanding balance. It had to liaise with the new owner to achieve this, but it did not have to buy back the debt.

Unhappy with this outcome Mr C asked for an ombudsman's review so the complaint was 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.

Our approach to complaints about unaffordable and irresponsible lending - including all the relevant rules, regulations and industry best practice that we consider – is set out on our website.

As the parties are no longer in dispute about which advances of credit were irresponsible and have accepted the investigator's assessment that no increases should have been provided after 1 August 2018 on any of the accounts I won't comment further on this.

I will focus here on what remains in dispute – the form of the redress. The investigator set out that (the underlining is mine for emphasis in response to Mr C's comments):

‘How to put things right

Mr C has asked Freemans to consider writing off the remaining debt. But I think that Mr C has had the benefit of the money that he borrowed because he was buying goods from Freemans. So I can't say this would be a fair outcome.

- I think to put things right, it's fair and reasonable for Freemans to refund any interest and charges incurred by Mr C as a result of the credit unfairly granted to him.*
- I think reasonable and proportionate checks at each credit limit increase would have revealed that Mr C's lines of credit should not have been increased from 1 August 2018 onwards. Therefore, Freemans should remove any interest and charges incurred after 1 August 2018 as a result of any increases.*
- That is, Freemans can only add interest accrued on the balance up to the credit limit of £300 (account A), £500 (account B) and £300 (account C), these being the credit limits before 1 August 2018.*
- Freemans should work out how much Mr C would have owed after the above adjustments. Any repayment Mr C made since 1 August 2018 should be used to reduce the adjusted balances.*
- If this clears any of the accounts, any funds remaining should be refunded to Mr C along with 8% simple interest* - calculated from the date of overpayment to the date of settlement.*
- If after all adjustments have been made Mr C no longer owes any money, then all adverse information regarding this account should be removed from the credit file from 1 August 2018.*
- Or, if an outstanding balance remains on any account, Freemans should look to arrange an affordable payment plan with Mr C for the outstanding amount. If the debt was sold to a third party, Freemans are to either repurchase the debt or liaise with the current debt owner to ensure the above steps are undertaken. Once Mr C has cleared the balance, any adverse information should be removed from the credit file.*

**HM Revenue & Customs requires Freemans to deduct tax from any award of interest. It must give Mr C 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.'*

I can see Freemans wrote to Mr C on 6 May 2022 setting out the redress amount based on these instructions for each account, and explaining that it would be offsetting these against the outstanding balances, with the remainder payable to the new debt owner.

These redress instructions are in line with our guidelines for irresponsible lending complaints, and I haven't seen any evidence that Freemans hasn't complied with them, so I will not be instructing the lender to do anything differently. I would urge Mr C to contact Freemans to progress this settlement.

As the investigator has already said, if Mr C feels he is being treated unfairly by the new debt owner he should raise a complaint with them. If he is unhappy with their response he can bring a new complaint to this service.

My final decision

I am upholding Mr C's complaint in part. Freemans Plc must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 27 July 2022.

Rebecca Connelley
Ombudsman