

The complaint

Miss H complains that Home Retail Group Card Services Limited, trading as Argos Financial Services ("Argos"), lent to her irresponsibly.

What happened

Miss H applied for a store card with Argos in June 2012. She opened an account with a credit limit of £550.

Miss H says that Argos shouldn't have provided her with the original credit or the increase in her credit limit to £600 in March 2019. She says it didn't take account of her low income at the time and that she had missed payments to other creditors, too. She says that if proper checks had been done Argos would have seen that she wasn't managing her finances well. Our adjudicator upheld Miss H's complaint. He said that he considered Argos should have checked Miss H's income and expenditure when it opened her account and, if it had, it would have realised she was spending more than she was earning.

Argos disagreed. It said it had conducted appropriate and proportionate checks and there had been nothing in those checks that indicated Miss H was in financial trouble or that it would be unfair to lend to her.

As Argos did not agree the complaint was passed to me to make a decision. I came to a slightly different conclusion to that of our adjudicator and I wrote to both parties to explain this. I invited comments from both parties before I made my final decision, and both parties provided these. I have reviewed these comments and refer to them in my decision. But I didn't see anything which made me think I should change my final decision.

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 and I've taken that into account when considering Miss H's complaint.

I've already explained that I have come to a different outcome to our adjudicator. I don't think Argos was wrong to provide Miss H with her initial credit, but I do think it was wrong to provide her with an increase in her credit limit in March 2019. I'll explain why I've reached this conclusion.

Argos needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss H could afford to repay what she 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 amount, Miss H's borrowing history and her income and expenditure.

Argos has said that it completed proportionate checks when Miss H opened her account. It says it conducted a credit check which showed nothing of concern and that it asked Miss H what her income was. It hasn't provided a copy of these checks, so I don't know what Argos saw, but I have no information to suggest that these checks on their own would have shown anything of concern.

Our adjudicator thought that it would have been *better* if Argos had completed income and expenditure checks at this point. I don't think there was anything to suggest Argos needed to do this. The credit offered was relatively low at £550 and there were no other reasons for Argos to have concerns. We asked Miss H about her income at the time of the account opening and while she says it was relatively low at £980 I don't think repayments on a credit limit of £550 would have been unmanageable. Miss H has provided an approximation of her expenditure at the time which our adjudicator calculated meant she was living in excess of her means. But I haven't seen any evidence to support this expenditure (or income) or any evidence that the proportionate checks completed by Argos at account opening should have shown this. In her response to my provisional decision, Miss H reiterated her financial circumstances but didn't provide any evidence, so I still can't rely on the income and expenditure she has told us about. So, on balance, I think Argos's initial decision to lend to Miss H was reasonable.

In March 2019 Argos increased Miss H's credit limit by £50 to £600. Argos says that when it did this it reviewed how Miss H had been managing her account and made an assessment of the affordability of the credit facility. It says it saw nothing that would have indicated she had trouble managing her account.

Argos has provided copies of Miss H's account statements preceding this increase. For many months Miss H had only been making the minimum repayments on her account. She was barely paying back any of the outstanding debt as most of her repayments were covering the interest and she was using a very high proportion of her limit every month. Miss H says that at the time of this increase she had been in default on an unsecured loan with another business from September to December 2018. This has been confirmed as correct in information supplied to this service by the other business in relation to a separate complaint.

While Miss H's credit file does not now show this default, it is likely because the other business has amended her credit file as part of its settlement with Miss H. Argos has queried this. It says that it may be the case that these defaults were taken off Miss H's credit file before it made the decision to lend more to her in March 2019, only three months later.

I have checked this again. The defaults were not taken off Miss H's credit file between December 2018 and March 2019. So I am satisfied that Argos ought to have seen the defaults on Miss H's credit file if it had completed the checks it says it did when it increased her credit limit. Argos has not been able to provide evidence that it saw something different when it made its checks. I think Argos should not have increased Miss H's credit limit because her current lending appeared to be becoming unaffordable for her. So, I think its decision to extend Miss H's credit limit was unfair.

Putting things right

As I don't think Argos should have increased Miss H's credit limit from £550 to £600, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit.

However, Miss H has had the benefit of all the money she spent on the account, so I think

she should pay this back. Therefore, if my decision is made final, Argos should:

- Rework the account removing all interest and charges that have been applied to balances above £550 from the date of the credit limit increase in March 2019.
- If the rework results in a credit balance, this should be refunded to Miss H along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Argos should also remove all adverse information recorded after the March 2019 credit limit increase regarding this account from Miss H's credit file.
- Or, if after the rework the outstanding balance still exceeds £550, Argos should arrange an affordable repayment plan with Miss H for the remaining amount. Once Miss H has cleared the outstanding balance, any adverse information recorded after the March 2019 increase in relation to the account should be removed from her credit file.
- If Argos has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

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

My final decision

For the reasons I have set out above I partially uphold Miss H's complaint and direct Home Retail Group Card Services Limited, trading as Argos Financial Services to pay compensation as I have described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 6 October 2022.

Sally Allbeury
Ombudsman