

## **The complaint**

Mr G is complaining that Freemans Plc lent to him irresponsibly by providing him with a catalogue shopping account.

## **What happened**

In July 2018, Freemans approved Mr G's account application, giving him a credit limit of £100. Mr G requested credit limit increases on two occasions, but Freemans declined these because of Mr G's payment history. So his credit limit was never increased. In July 2021, Mr G paid the outstanding balance, and the account was closed.

Mr G complained to Freemans in December 2023. He said at the time of holding the account he had minimal income, was struggling to pay for essentials and was behind on priority bills. He said affordability checks clearly hadn't been conducted and Freemans shouldn't have lent to him. Mr G also complained about how Freemans treated him while the account was open.

In their response, Freemans said they carry out creditworthiness assessments on all customers before opening a new account or increasing a credit limit. In relation to Mr G, they said, they'd checked his credit file and found he had 12 active accounts, most of which were up to date. They said they'd noticed one account with arrears and factored this into the lending decision – and this was why they'd only allowed him a credit limit of £100. Freemans also told us the information they gathered said Mr G's debt to income ratio was low, further supporting their decision to lend to him.

In relation to Freemans' conduct during the agreement, Freemans said they'd not been able to find any record of any contact with Mr G prior to January 2021. They said Mr G had told them in January 2021 that he was struggling with the impact of the pandemic, and they agreed at the time to remove some fees from the account. They didn't think they should have done any more in the circumstances. In summary, Freemans didn't uphold the complaint.

Mr G remained unhappy and brought his complaint to our service where one of our investigators looked into it. Our investigator said she thought Freemans shouldn't have lent to Mr G, because of the information on his credit file about his arrears and the total value of his debts. But she didn't think Freemans had acted unfairly in any other way.

Freemans disputed our investigator's view, saying that our investigator had misunderstood some of the data they'd provided. They said that the majority of Mr G's unsecured debt was in a hire purchase agreement which had a fixed monthly payment and provided stability. And they said the £100 limit would amount to a monthly payment of £5 so they were satisfied the agreement was affordable for Mr G. Freemans requested an ombudsman's decision – and the complaint's come 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.

Having done so, I'm upholding Mr G's complaint for broadly the same reasons as our investigator. I'll explain more below.

#### *What's required of lenders?*

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer, or when increasing the amount they lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case.

#### *Did Freemans carry out proportionate checks?*

Freemans carried out a credit check and an affordability assessment using data from the Credit Reference Agencies (CRAs). They didn't ask Mr G about his income or expenses, or carry out any other checks. But they only approved a limit of £100, so it wouldn't have been proportionate for them to carry out extensive checks. I'm satisfied the checks they carried out were reasonable and proportionate in the context of the credit limit Freemans set.

#### *Did Freemans make a fair lending decision?*

I've reviewed the data Freemans obtained before lending to Mr G. In their explanations, Freemans have relied heavily on the fact that the CRA reported Mr G's monthly payments to unsecured creditors represented only 20% of his maximum monthly income. But it's not clear how this was calculated, and there's no indicator of what they thought Mr G's income was, or the level of confidence the CRA had in their estimate of Mr G's income.

Looking at the rest of the CRA data, I can see that Mr G had a substantial mortgage, and 11 other active accounts totalling over £27,000. The data show that at least three accounts had been in arrears within the preceding three months, with some having two missed payments. And I can see that Mr G had opened five accounts in the preceding six months, of which three had been in the last three months before he applied to Freemans. The data also show that Mr G was using 99% of his credit limits across his revolving credit accounts. All of this is indicative of someone who was struggling to manage his finances and increasingly reliant on credit to do so.

Taking everything together, I'm not satisfied Freemans made a fair lending decision. In my opinion, there were several indicators in Mr G's credit report that indicated he was likely struggling to manage his finances and that it would be irresponsible to lend further to him.

*Did Freemans treat Mr G unfairly in any other way?*

I've reviewed the contact notes between Freemans and Mr G, and listened to the call recordings for the three calls Freemans had a record of. It's clear there was limited contact between Mr G and Freemans. During 2019, Freemans declined to increase Mr G's credit limit on a couple of occasions. And in January 2021, Mr G called Freemans to explain he'd inadvertently slightly underpaid his minimum payment and asked Freemans to refund the missed payment charge. Freemans removed this charge, and another one, which Mr G said was due to financial difficulties caused by the pandemic. During these January 2021 calls, Mr G told Freemans he would be able to make the repayments going forward and didn't need a payment plan. I haven't seen or heard anything to suggest Freemans treated Mr G unfairly, so I'm not upholding this aspect of his complaint.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr G in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

### **Putting things right**

As Freemans shouldn't have opened the account, it's not fair that Mr G's paid them interest and charges on it. But it is fair that Mr G pay back the underlying amounts he borrowed – he had the benefit of those sums. So Freemans should:

- calculate the total amount Mr G paid to them and deduct the total of sums borrowed;
- refund this amount to Mr G, adding simple interest at 8% per year from the date of each overpayment to the date of settlement; and
- arrange for any adverse information relating to the account to be removed from Mr G's credit file.

If Freemans consider tax should be deducted from the interest element of my award they should provide Mr G a certificate showing how much they've taken off so that Mr G can reclaim that amount, assuming he is eligible to do so.

### **My final decision**

As I've explained above, I'm upholding Mr G's complaint. Freemans Plc need to take the steps I've outlined above to settle the matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 22 October 2024.

Clare King  
**Ombudsman**