

The complaint

Ms A says Next Retail Limited irresponsibly lent to her when it increased the credit limit on her NextPay account in September 2017.

What happened

Ms A opened a NextPay account in 2006. She previously brought a complaint to this service about irresponsible lending on her account and a final decision was issued in February 2017. Ms A accepted this decision, which didn't uphold her complaint, in March 2017. She contacted this service again in November 2019 after Next had been in touch to say it was refunding an amount of interest as it had failed to properly consider her disposable income when agreeing a payment plan in 2018. Ms A says this admission shows Next was also irresponsible when it increased her credit limit in September 2017.

The scope of this complaint is solely the increase in lending in September 2017. Ms A's credit limit was £400 and Next increased it to £3000. Two months later it subsequently reduced it to £1,500. Ms A's account defaulted in December 2018.

Next explained that before increasing Ms A's limit it looked, as it did each month, at an affordability score from the credit reference agencies that gives an idea of income, expenditure and existing credit commitments – and her score was good. It also considered how she had been maintaining her account, noting she was up to date with her payments and at times making more than the minimum repayment. So it hadn't upheld Ms A's complaint.

Our adjudicator concluded Next shouldn't have increased Ms A's limit at this time. She said the checks Next carried out before offering the limit increase were not proportionate. She thought that given Ms A had previously raised concerns about irresponsible lending in 2017 and said she couldn't afford the repayments of her existing debt, Next needed to have completed a fuller financial review before increasing Ms A's limit.

Had it done so it would have seen that Ms A was having problems managing her money and as a responsible lender it ought to have realised it was unlikely Ms A could sustainably manage and repay a higher credit limit. She set out what Next now needed to do to put things right.

Next agreed to settle Ms A's complaint in line with the adjudicator's recommendations. Ms A however said she felt Next needed to do more to compensate her given the phenomenal size of the unaffordable limit increase it offered her. 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 unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As I've set out in the background to this complaint (**'what happened'**), our adjudicator explained why she didn't consider Next had completed proportionate checks. I think her rationale was fair. She then explained that had it done so it would have seen that Ms A was having problems managing her money. The adjudicator looked at Ms A's credit file as a way to see what Next might have been aware of had it carried out proportionate checks. She found Ms A had several other revolving accounts with significant credit limits and had defaulted on four accounts in the 13 months prior to Next increasing Ms A's credit limit. And so concluded Next was wrong to lend more to Ms A at this time. I agree with this particularly given Next was offering her seven times more credit on an open-ended revolving facility.

As neither party disputed this finding I won't comment on it further. Where we find credit to have been given irresponsibly, as we did here and as Next has accepted, our general approach is to direct the lender to refund interest and charges but not the capital borrowed as the customer has had the use of this, in Ms A's case to make purchases from Next. As well as removing any adverse information recorded on the borrower's credit file from the date of the irresponsible lending onwards.

Next agreed to do this, confirming an amount of interest and some charges that had already been refunded. It also agreed to bring the debt back in house and to honour the payment plan Ms A has in place with the third party. It asked that Ms A contact it to set this up.

Ms A said this wasn't enough and asked for more compensation given the size of the limit increase as she still has a significant balance to repay. But I think it's fair and reasonable that she repays the capital as she had the benefit of that money by making a number of purchases from Next. I note she has been able to agree an affordable repayment plan with the third party the debt was transferred to. In the circumstances of her case I haven't found any grounds to award any additional compensation. It follows I am upholding Ms A's complaint, but not ordering any change to how things should be put right.

Putting things right

Next has confirmed it has brought Ms A's debt back in house so it should:

- Remove any interest and charges incurred as a result of the increase to Ms A's credit limit on or after 30 September 2017 that have not already been refunded.
- Recalculate Ms A's account balance after making the above adjustments. Any repayments made by Ms A since 30 September 2017 should be used to reduce the outstanding balance.
- For any periods where the recalculated balance is in credit, Next should pay Ms A interest on the credit amount at a rate of 8% simple per annum* for the period the account remains in credit. It can if it chooses use any such amount to reduce the outstanding balance.
- As it seems an outstanding balance will remain, I would remind Next that it should treat Ms A sympathetically when seeking to agree an affordable repayment plan. I note it has offered to carry over her £10 monthly payment from the third party it sold the debt to. Ms A should contact Next to set this up, assuming it remains affordable.
- Remove any negative information added to Ms A's credit file from 30 September 2017 to now. If Ms A fails to meet the agreed repayment plan, or breaches the terms of her agreement in any other way going forward, Next can reflect this in the data it passes to the credit reference agencies.

* HM Revenue & Customs requires Next to take off tax from this interest. Next must give Ms A a certificate showing how much tax it's taken off if she asks for one.

My final decision

I am upholding Ms A's complaint. Next Retail Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 10 May 2021.

Rebecca Connelley
Ombudsman