DRN-2728203

The complaint

Mr B complains that J D Williams & Company Limited trading as Jacamo ("JDW") irresponsibly increased the credit limit on a catalogue shopping account, and continued to allow him to borrow when it should have been clear he was facing financial difficulties.

What happened

Mr B opened a catalogue shopping account with JDW in June 2016. At that time his credit limit was initially set at £100. The credit limit was increased a number of times, reaching £1,300 in January 2017 before being increased for a final time in January 2018 when the credit limit was set at £2,000.

When Mr B first complained to JDW it didn't think it had been wrong to open the account, or increase his credit limit. So Mr B brought his complaint to this Service. His complaint has been assessed by one of our adjudicators. He didn't think that JDW had done anything wrong initially. But he thought that by the time the credit limit was increased to £2,000 in January 2018 JDW should have seen that Mr B might be facing problems repaying what he owed. So he didn't think that credit limit increase should have been agreed. And he thought that by the following year, JDW should have taken steps to freeze Mr B's account as it should have realised the credit was no longer suitable for him. So our adjudicator asked JDW to put things right for Mr B.

JDW accepted our adjudicators assessment and agreed to revise Mr B's account. But Mr B didn't accept the assessment. He thought the point at which JDW should have noticed that he was facing difficulties managing his finances was much earlier. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr B accepts my decision it is legally binding on both parties.

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/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr B's complaint.

The rules and regulations at the time required JDW to carry out a reasonable and proportionate assessment of whether Mr B could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check". The check needed to be completed at the outset of the relationship and each time there was a significant increase in the credit limit. JDW also needed to monitor the account for any signs that Mr B was struggling to manage the credit he'd been given.

The checks had to be "borrower" focused – so JDW had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr B. In practice this meant that JDW had to ensure that making the required repayments wouldn't cause Mr B undue difficulty or adverse consequences. In other words, it wasn't enough for JDW to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr B.

Checks also had to be "proportionate" to the specific circumstances at that time. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);

- the *longer* the period of time a borrower will be, or has been, indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether JDW did what it needed to before agreeing to open an account for Mr B, and to agree the subsequent increases to his credit limit.

JDW has told us that it set, and managed, Mr B's credit limit by reference to information it received from a credit reference agency, and by looking at how Mr B was managing his credit account. But JDW hasn't given us much detail about the results it received each month from the credit reference agency checks.

At this stage I think I should note that, generally, the information a consumer might see, when they request a copy of their credit file, might be very different to that seen by a lender. A lender might only see a small portion of the credit file, or some data might be missing or anonymised, or the data might not be up to date. So, this may explain any differences between the information provided by JDW's credit check and the information that Mr B says it should have seen from his credit report.

The credit limit JDW agreed when the account was first opened was relatively small - I don't think it would've been proportionate for JDW to ask Mr B for the amount of information that would be needed to show the lending was unsustainable before opening the account. So I don't think the original lending decision should cause me any great concerns.

And I think the same applies to the increases to the credit limit that took place over the following six months. During that time Mr B appears to have operated his account relatively well, maintaining its balance within the agreed credit limit, and making the required repayments on time.

Mr B has shown us that he had two other credit accounts enter default in the latter stages of 2016. He says that should have put JDW on notice that he was finding it difficult to manage his finances. I don't know if, or when, those defaults would have been seen by JDW. As I explained earlier, it's entirely possible that its reporting might have not shown that information in detail. But even if those defaults were shown, it would have been entirely reasonable for JDW to give greater weight in its considerations to how Mr B was managing his shopping account.

During that time the credit increases that JDW applied remained relatively modest. And given the smooth operation of the account to that time I don't think that it would be reasonable to expect JDW to have gathered the additional it might have needed to identify any problems that Mr B was facing. I think that its checks remained proportionate and that overall they showed there was no reason for it to not increase Mr B's credit limit.

During 2018 Mr B's outstanding balance continued to grow steadily. By then he'd held the account for nearly 18 months and at no time had he been successful if repaying all that he owed. I think that should have been of increasing concern to JDW. So, although he was operating his account relatively well, and making all his contractual repayments, I don't think that JDW had any reasonable grounds to conclude that a further increase in Mr B's credit limit would be appropriate. So I don't think that it was reasonable for JDW to increase Mr B's credit limit to £2,000 in January 2018.

JDW needed to do more than just check whether Mr B could afford to repay what he owed when it increased his credit limit. It also needed to monitor his use of the credit facility over its lifetime. As I said earlier, by January 2018 I think Mr B's failure to make any great headway in repaying what he owed should have been of concern. And that pattern continued throughout the following year.

Mr B's outstanding balance continued to grow throughout 2018 before increasing markedly in December of that year. I accept that some of that later spending might have been seen as natural given the time of the year, but I think that when considered alongside the previous twelve months it should have put JDW on notice that Mr B had reached the point where he was no longer able to effectively manage his account. Allied to his new spending, the repayments he had been able to make for the past year had little effect in reducing his outstanding balance. So I think by January 2019 JDW should have reached the point where it accepted Mr B was facing serious problems managing his money. It should have treated him at that point with forbearance and with due consideration. I think an appropriate response would have been to prevent Mr B from making any further purchases using the account and to stop the addition of any new interest.

So in summary, I don't think JDW should have increased Mr B's credit limit in January 2018. And I think that by January 2019 it should have stopped him taking any further credit and suspended the addition of interest to the account. So JDW needs to put things right for Mr B.

Putting things right

To put things right, JDW should reconstruct Mr B's account by making the following adjustments;

- I don't think JDW should have agreed to increase Mr B's credit limit in January 2018. So JDW should remove any interest incurred on amounts above the previous credit limit of £1,300 from the date of increase in January 2018.

- I don't think JDW should have agreed to allow any further purchases to be made using the account from January 2019. So JDW should remove any interest and charges (including delivery fees, Buy Now Pay Later interest, and PPP insurance premiums) added to the account after 1 January 2019.

- JDW should remove any adverse information recorded on Mr B's credit file that wouldn't have been added if the above adjustments had been applied at the time.

If, after making these adjustments, Mr B's account was in credit at any time, JDW should pay Mr B interest at a rate of 8% simple* on the credit balance for the period it is in credit.

If a credit balance remains at the end of the calculations JDW should refund that amount to Mr B, adding interest at a rate of 8% simple* on the credit balance to the date of settlement.

* HM Revenue & Customs requires JDW to take off tax from this interest. JDW must give Mr B a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold part of Mr B's complaint and direct J D Williams & Company Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 14 May 2021.

Paul Reilly
Ombudsman