

The complaint

Mrs P complains that J D Williams & Company Limited irresponsibly gave her credit she couldn't afford to repay.

What happened

In April 2016, Mrs P opened a J D Williams catalogue shopping account. She was given an initial credit limit of £175 which was increased a further nine times until it reached £3,000 in September 2019.

Mrs P started struggling to meet the contractual minimum payments in early 2018. However, she eventually cleared the balance in 2020 by borrowing money from her husband. She raised a complaint with J D Williams to say the credit she was given had been unaffordable to her and proper affordability checks hadn't been carried out. J D Williams didn't uphold the complaint as it didn't think it had lent irresponsibly to Mrs P.

Our adjudicator recommended the complaint be upheld in part. He said that when J D Williams increased the credit limit to £600 in July 2016, it ought to have completed a more thorough assessment of Mrs P's financial circumstances. He thought that if it had done so it would likely have seen that Mrs P wasn't able to afford the new limit of £600.

J D Williams didn't agree. In summary, it said that there weren't any signs that Mrs P might have been in financial difficulty at the time. It noted that Mrs P continued to make the minimum payments on the account for a considerable time afterwards and where the limit was significantly higher than £600. It said this demonstrated Mrs P could afford the repayments. Lastly, it said that given Mrs P had successfully cleared the balance in 2020 with several large repayments, this indicated that Mrs P had the funds available.

The complaint has been passed to me for a 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.

In summary, J D Williams should have carried out proportionate checks to make sure Mrs P could afford to repay what she was being lent in a sustainable manner. What would be considered proportionate will vary in each case. Generally I would expect more thorough checks to have been completed the higher the amount of credit being advanced, the greater the regular repayments, the lower the consumer's income and the longer the consumer had been indebted without making significant strides to reducing the outstanding balance.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable and therefore it would be irresponsible to grant further credit.

Our adjudicator explained in some detail why they didn't think J D Williams acted unfairly in providing the initial credit limit and subsequent increases up to £375. Neither party appears to have disagreed with those findings and for completeness, I'm also satisfied that J D Williams didn't make an unfair lending decision in relation to those. This is because I don't think that proportionate checks would have likely shown that Mrs P couldn't afford the borrowing.

The limit was increased to £600 in July 2016. At this stage I don't think J D Williams completed proportionate affordability checks. I say this because by this point it should already have tried to establish what Mrs P's income was. Had it done so it would have seen she was earning around £350 per month. I've seen that J D Williams' credit checks revealed that she had around £4,000 in outstanding credit commitments elsewhere. On top of this, her balance on the J D Williams account had risen significantly in the previous two months and was almost at the limit.

Given the small income Mrs P had and the size of her existing credit commitments, I think this ought to have highlighted to J D Williams that it was likely she might struggle to sustainably repay a higher credit limit. It therefore should have done more to verify Mrs P's financial circumstances, such as her committed expenditure. Had it done this, I think it's likely from the evidence I've seen that J D Williams would have discovered that Mrs P wasn't in a position to be able to afford the repayments on a higher credit limit in a sustainable way.

Although Mrs P has told us her husband paid for most of their general living expenditure, it appears she was responsible for her personal credit commitments. I can see that Mrs P was regularly overdrawn on her current account and incurring additional charges and interest. Her usage of her current account suggested that she wasn't managing her existing commitments in a sustainable way. I think had J D Williams completed proportionate affordability checks it would likely have seen this information too. J D Williams therefore acted unfairly by increasing Mrs P's credit limit to £600 and beyond and it should now put things right.

J D Williams has argued that Mrs P managed her catalogue shopping account well even at higher limits and managed to clear the account making large payments in 2020. However, from what I've seen, since that increase to £600, Mrs P continued to get further and further into debt without making any inroads into reducing the outstanding balance. While she did maintain her minimum payments until early 2018, that doesn't mean it was affordable for her. While Mrs P was able to pay the balance off eventually, this wasn't from her own money and therefore doesn't change the outcome I've reached about J D Williams' lending decision in July 2016.

Putting things right

As I don't think J D Williams should have increased Mrs P's credit limit to £600 in July 2016, it should now:

- Rework the account to ensure that from July 2016 onwards interest is only charged on balances up to £375, including any buy now pay later interest (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and

- As Mrs P has paid off the balance already, any rework of the account is likely to have resulted in her making an overpayment. Any overpayments should be returned to Mrs P, along with 8% simple interest per year on the overpayments from the date they were made until the date of settlement. J D Williams should also remove any adverse information from Mrs P's credit file from July 2016 onwards.†

†HM Revenue & Customs requires J D Williams to take off tax from this interest. J D Williams must give Mrs P a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons given above, I uphold this complaint and direct J D Williams & Company Limited to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 7 April 2022.

Tero Hiltunen
Ombudsman