DRN-3210226

The complaint

Mr G says J D Williams & Company Limited ("J D Williams") irresponsibly lent to him. He has requested that the interest and late payment charges he paid on his account be refunded.

What happened

This complaint is about a total of seven catalogue shopping accounts provided by J D Williams to Mr G. The first two accounts were opened in December 2016 with Mr G being given an initial credit limit of £125 on each account. The limit on both accounts was increased six times until it reached £1250 in December 2017 and the same amount for the second account in February 2018.

The third account was opened in January 2017 with a credit limit of £125. This was increased five times until it reached £1300 in January 2018.

The fourth account was opened in March 2017 with a credit limit of £125. This was increased three times until it reached £600 in April 2018.

The fifth account was opened in April 2017 with a credit limit of £150. This was increased five times until it reached £1250 in March 2018.

The sixth account was opened in June 2017 with a credit limit of £125. This was increased five times until it reached £1000 in May 2018.

The seventh account was opened in June 2019 with a credit limit of £175. This was increased twice, reaching £375 in July 2019.

Mr G says he's unhappy that J D Williams continued to increase his credit limit on each account and didn't make proper checks to find out if he was in financial difficulties.

J D Williams says it carried out enough checks when it agreed to give Mr G his account and also each time it increased his credit limit. It says his credit score remained positive and his balances under almost 70-80% of the credit limits, on average. He also made regular payments that were sometimes more than the minimum which meant he was considered for further credit increases.

Our adjudicator partially upheld Mr G's complaint and thought that by May 2017 J D Williams ought to have realised that Mr G wasn't in a position to sustainably repay any further credit on his accounts by the time it increased the credit limit on Mr G's credit limit. As J D Williams doesn't accept our adjudicator's the complaint has been 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.

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.

J D Williams needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr G could afford to repay what he was being lent in a sustainable manner. These checks could take into consideration a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that J D Williams should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

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

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

- the *greater* the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Our adjudicator thought that the increases made to Mr G's accounts up to April 2017 didn't show or suggest irresponsible lending by J D Williams. She noted the evidence of income provided by Mr G, which was at that time around £2000-£2400 per month. However, she also thought that JD Williams ought to have carried out checks about Mr G's committed expenditure when increasing the credit limits to accounts three and one, in January and February 2017 respectively. But she didn't think it was unreasonable for these limits to be increased, based on the what she'd seen about Mr G's income and the bank statements he'd provided. And she noted that J D Williams were likely aware of Mr G having a historic default with another creditor elsewhere. When further credit limit increases took place, in March and April 2017, our adjudicator saw that Mr G had no arrears and was continuing to make repayments that always met the minimum required and sometimes exceeded it. As J D Williams gave Mr G further credit limit increases, he gradually began to use up increasingly more of his available credit limit. Overall, however, our adjudicator thought that there wasn't enough to show that Mr G was having financial difficulty to the extent that J D Williams shouldn't have increased his credit limits over this period.

Our adjudicator also set out in some detail why she thought J D Williams shouldn't have provided Mr G with any additional credit from May 2017. In May 2017 J D Williams increased the credit limit on Mr G's second account to £700, when the outstanding balance on the account at that point was £477.50. Mr G had a total credit limit by this time of £1400. Up to that time Mr G had made only one payment below the minimum required, for the third account in April 2017. But Mr G's historic default against another account would probably have been available to J D Williams to see. And by this point Mr G's bank statements and what he'd told us about his costs showed it was likely that he wouldn't be able to take on further credit commitments, given that by this time his income had gone down to around £1600 per month. Taking into account his daily living costs and other debt commitments, Mr G would have been left with very limited disposable income.

Having reviewed the complaint in detail, I've reached the same outcome as our adjudicator did and for the same reasons.

J D Williams said the credit limits it set were affordable for Mr G and that he was able to keep up with the minimum payments for each account. It also disputed that Mr G's disposable income had dropped significantly in or around May 2017. Our adjudicator provided J D Williams with Mr G's bank statements, showing that there'd been a drop in Mr G's income which would likely have left him in difficulty in meeting his overall minimum payment – with his ability to meet future payments worsening as he continued to use his increased credit limits.

In making my decision I've looked at these points as well as the overall pattern of J D Williams' lending history with Mr G, with a view to seeing if there was a point at which J D Williams should reasonably have seen that further lending was likely unsustainable, or otherwise harmful. If so, that would mean J D Williams should have realised that it shouldn't have further increased Mr G's credit limits.

Given the particular circumstances of Mr G's case, and based on the information Mr G and J D Williams have given, I agree with our adjudicator that a point was reached by May 2017 by which time J D Williams ought to have been aware that Mr G was no longer in position to meet his ongoing credit commitments, alongside his daily living expenses, such that any further credit would be unaffordable or otherwise harmful to Mr G. I also think that J D Williams ought not to have approved the opening of two further credit accounts – accounts six and seven – in June 2017. These new accounts had the effect of increasing Mr G's overall credit limit to £6825. And it follows from that that any further increases by J D Williams to his accounts were unlikely to be suitable, given Mr G's worsened financial situation following his drop in income. I also think it's likely he would be unable to reduce the increasing debt on his account whilst at the same time having to meet his daily living expenses and other credit commitments. I therefore think J D Williams ought to have realised that there was a significant risk that increasing Mr G's credit limit in these circumstances would lead to his indebtedness increasing unsustainably.

I therefore think that Mr G lost out because J D Williams provided him with further credit from May 2017 onwards. In my view, J D Williams should have realised by then that Mr G was in getting into financial difficulty and was likely to experience problems in meeting his monthly indebtedness to J D Williams, taking into account on his reduced level of income and the level of monthly living costs and sums owed to other creditors he need to meet.

It follows that I agree J D Williams should put things right.

Putting things right – what J D Williams needs to do

- Rework Mr G's accounts to ensure that from 25 May 2017 onwards, interest is only charged on balances up to the total credit limit of £1400, 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

- If an outstanding balance remains on any account once these adjustments have been made J D Williams should contact Mr G to arrange an affordable repayment plan for this account. Once Mr G has repaid the outstanding balance, it should remove any adverse information recorded on Mr G's credit file from 25 May 2017 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr G, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. J D Williams should also remove any adverse information from Mr G's credit file from 25 May 2017 onwards.†

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

My final decision

For the reasons set out, I'm partially upholding Mr G's complaint. J D Williams & Company Limited should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 1 April 2022.
Michael Goldberg
Ombudsman