

The complaint

Mrs A complains that Next Retail Limited trading as Next Directory ("Next") lent to her irresponsibly and provided credit that was unaffordable for her

What happened

In October 2016 Mrs A opened a shopping account with Next. She had an initial account limit of £600. In January 2017 her credit limit was reduced to £100 and in May 2017 the credit limit was increased to £3,750.

Mrs A says that her credit limit shouldn't have been increased to £3,750. She said she was extremely vulnerable and wasn't in the right frame of mind to take out any credit. Mrs A says she became unable to afford the repayments and it had a significant impact on her life. Mrs A wanted her whole outstanding balance to be cleared and for any negative impact on her credit file to be removed.

Next explained that it agreed it shouldn't have increased Mrs A's credit limit to £3,750. It said that based on its current procedures this was too large an increase. Next bought back Mrs A's account from third party debt collectors to whom it had sold Mrs A's outstanding debt in July 2019. Next also refunded the interest on Mrs A's account, leaving the remaining balance at £3,625.90 and invited Mrs A to contact it to discuss setting up an affordable repayment plan.

Next said it wouldn't be able to remove the default from Mrs A's credit file as it had a duty to report how the account was managed and because other lenders rely on this information when making their lending decisions. Next did offer Mrs A an apology for the service she received and £100 in compensation.

Mrs A didn't accept this offer and asked us to consider her complaint. She thought that Next had continued to allow her to spend after January 2017 when her credit limit was reduced and before May 2017 when her credit was increased to £3,750.

The adjudicator who considered Mrs A's complaint agreed that Next shouldn't have increased Mrs A's credit limit to £3,750. The adjudicator didn't think Next had allowed Mrs A to continue spending on her account between January and May 2017. The adjudicator thought that what Next had done to resolve the complaint was enough.

Mrs A disagreed, so her complaint has been passed to me to make a 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 and I've taken that into account when considered Mrs A's complaint.

Next needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs A could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, Mrs A's borrowing history and her income and expenditure.

The credit check results provided by Next didn't show anything negative to suggest it would have been unreasonable to have opened Mrs A's account in October 2016. I think Next ought to have taken steps to build a picture of Mrs A's financial situation, for example by asking for Mrs A's income.

Our adjudicator requested this information from Mrs A but she didn't provide the information. I also note that when Mrs A asked Next to cancel her outstanding balance completely Next asked her to complete a form and return some personal financial information to it but she didn't do this.

I haven't seen anything in the information available which would suggest Next would have known that Mrs A wouldn't have been able to sustainably meet the repayments towards the account. So I don't think it acted irresponsibly or inappropriately in providing the opening credit to Mrs A.

In January 2017 Mrs A's credit limit was reduced from £600 to £100. At this time her balance was £566. Next said that it did this to stop her spending for a while to contain her balance. Given that Mrs A was still within her limit I consider it's likely that Next had information to suggest she was not able to manage her finances at that time.

Although Mrs A's credit limit was now £100, Next essentially set her limit to match her outstanding balance at the time so that it did not report to credit reference agencies that she was over her limit. As she made payments towards the account her limit was effectively reduced to whatever the level was of her outstanding balance. Further purchases Mrs A made between 14 January 2017 and 12 May 2017 were paid for in advance and not on credit.

When Mrs A had made payments to her account over a number of months, Next increased her limit to £3,750 in May 2017. This was a big leap and Next accepts that this increase was too high. I agree. While the index Next used to assess affordability indicated that this may not have been a problem, there were other indications on her account – for example the fact her credit limit had been reduced very recently due to concerns about affordability. Next also appear to have done very little at the time to understand any specifics about Mrs A's financial circumstances, such as what her income was. I don't think it was appropriate to increase her limit so significantly in the circumstances without a more thorough affordability assessment..

So, I don't think that Next did anything wrong when it gave Mrs A £600 of credit when it opened her account. And I don't think it did anything wrong when it reduced her credit to £100 in January 2017. But I do think it acted irresponsibly when it extended Mrs A's credit to £3,750 in May 2017. So, I partially uphold Mrs A's complaint.

Putting things right

As I uphold this complaint in part I consider it's fair and reasonable for Next Directory to refund any interest and charges incurred by Mrs A as a result of the credit unfairly granted to her.

I don't think the limit should have been increased from 13 May 2017 onwards. Therefore, Next should remove any interest and charges incurred after 13 May 2017 as a result of any increases. That is, Next Directory can only add interest accrued on the balance up to the credit limit of £100 - being the credit limit before 13 May 2017. I understand that Next has already done this.

Next says that there is a current outstanding balance of £3,625.90 after these calculations. Next has invited Mrs A to contact them to discuss an affordable payment plan. Next does not have to refund or write off any sums for goods Mrs A purchased as she has received these and had benefit from them.

Once the outstanding balance has been repaid, Next should remove any adverse information from Mrs A's credit file from 13 May 2017.

I think Next's offer of an apology and £100 in compensation for the service they provided is fair and reasonable in the circumstances, so I won't be telling them to do anything else.

My final decision

I partially uphold Mrs A's complaint and direct Next Retail Limited to put things right as I have explained above. I understand that Next Retail Limited agreed to this outcome after Mrs A brought her complaint to this service and have since made the appropriate adjustments to Mrs A's account. When the outstanding balance has been cleared I direct Next Retail Limited to make the adjustment to Mrs A's credit file as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 8 March 2022.

Sally Allbeury
Ombudsman