DRN-3262173

Financial Ombudsman Service

The complaint

Mr S complains that JD Williams & Company Limited ("JD Williams"), provided him with an increased credit limit on a catalogue shopping account that he could not afford.

What happened

In December 2017 JD Williams approved a catalogue shopping account with an initial limit of £200 for Mr S. It then increased that limit six times until it reached £1,500 in August 2019. It appears that JD Williams agreed a payment arrangement with Mr S at some point in 2019 when he ran into difficulties maintaining repayments. I understand the outstanding debt was ultimately sold to a third party. I've included a table showing the limit increases for ease of understanding:

Event	Date	New limit
Account opened	December 2017	£200
1st limit increase	January 2018	£300
2nd limit increase	February 2018	£500
3rd limit increase	March 2018	£700
4th limit increase	April 2018	£1,000
5th limit increase	May 2018	£1,400
6th limit increase	August 2019	£1,500

After JD Williams rejected his complaint, Mr S brought the case to our service. One of our adjudicators looked at the evidence and thought that JD Williams should not have increased Mr S's credit limit on the final occasion in August 2019. JD Williams didn't accept that, saying that the outcome hadn't been properly explained, and asked that the case be passed to an Ombudsman for review.

The first five limit increases are no longer in dispute, and this decision won't be dealing with them in any detail.

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.

Having done so, I'm going to uphold this complaint in part and I'll explain why.

JD Williams is aware of its obligations under the rules and regulations in place at the time of these credit limit increases, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Mr S would be able to repay the borrowing it was making available to him in a sustainable way.

The adjudicator thought that JD Williams was aware of enough concerning information by August 2019 to identify that no further increase in borrowing – even just £100 – could be deemed to be responsible lending. He highlighted several issues, including Mr S having been over his credit limit, and that Mr S seemed to have almost only ever made minimum repayments on the account.

JD Williams objected strongly to this, underlining that, under the relevant regulations, making minimum repayments cannot automatically be considered to be a sign of financial difficulties. And that, in fact, there were no signs of any difficulties in Mr S's operation of the account.

I disagree. JD Williams is right in its citing of the regulations and the making of minimum repayments. However, holistically, the overall picture of Mr S's borrowing by 2019 is not a positive one. And it is clear that JD Williams' own internal assessment system was raising concerns.

I particularly note the following:

- Whilst he made regular payments until the autumn of 2019, each payment was small, and seems likely to have been the minimum required under the credit agreement. Mr S's payments were clearly not making any inroads into the increasing amount he owed and very clearly do not suggest sustainable borrowing. Whilst this alone may not indicate *unsustainable* borrowing, it is relevant to my considerations.
- JD Williams' ongoing monitoring of Mr S's credit file showed a significant escalation in his overall indebtedness between October 2018 and August 2019, rising from £1,669 to a consistent level of over £10,000 respectively. That should have been a clear flag to JD Williams that there were potential issues.
- Mr S exceeded his credit limit in July 2019, which JD Williams has attempted to dismiss by highlighting that was because of an interest charge, presumably as opposed to additional purchases. I find this attitude a strange one, as the cause of the limit excess does not necessarily remove concerns about the sustainability of the borrowing under scrutiny. This is a clear flag of poor financial management and difficulties with the existing credit limit.
- JD Williams operates a form of account management which it says indicates, month by month, the maximum it can responsibly lend to its customers. It refers to this maximum as a "shadow limit". I can see that from January to July 2019 inclusive, Mr S's actual credit limit *exceeded* this shadow limit. So JD Williams' own systems were flagging that he could not afford the borrowing it was providing, and yet it didn't respond to that. For the first few months of 2019, Mr S's borrowing was substantially below the shadow limit, so JD Williams could have acted in accordance with its own assessment and reduced his credit limit. It didn't. For the month of August 2019 the shadow limit inexplicably rose to £1,500, which is, of course when the final limit increase occurred. It then quickly dropped back down in September 2019.

I've explained what sustainable borrowing (and therefore lending) looks like under the regulations in force at the time. On balance, I'm satisfied that by August 2019 JD Williams had sufficient indications that this borrowing was not sustainable for Mr S, and should not have increased the credit limit on this account. It therefore follows that I uphold this complaint in part.

Putting things right

In order to put things right for Mr S, JD Williams must do the following:

- Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since 28 August 2019 on balances exceeding £1,400.

- If after the rework the balance would have been cleared, JD Williams must refund any overpayments to Mr S with 8% simple interest per year*, calculated from the date of overpayment to the date of settlement.
- If this rework means that Mr S owes no more money, JD Williams must remove adverse information about this account from 28 August 2019 onwards from Mr S's credit file.
- If after the adjustment an outstanding balance remains, JD Williams must try to arrange an affordable repayment plan with Mr S. This may involve JD Williams repurchasing the debt from a third party, or liaising with that third party to ensure the above steps are undertaken. Once the balance has been fully cleared, any adverse information about the account should be removed from Mr S's credit file.

*HM Revenue and Customs requires JD Williams to deduct tax from any award of interest. It must give Mr S a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons I've explained, I uphold this complaint and direct JD Williams Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 29 March 2022.

Siobhan McBride
Ombudsman