DRN-3299566

The complaint

Mr N complains that JD Williams & Company Limited ("JDW") irresponsibly increased the credit limit on his account without having regard to his financial circumstances.

The details of this complaint are well known to both parties, so I will not repeat everything again here. Instead, I will focus on giving the reasons for my 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.

Having done so, I've decided to uphold it for the reasons set out below.

Mr N opened his account with JDW in December 2015 where he was given a credit limit of £125. His limit was later increased to £200 in August 2017 and was then further increased incrementally to £1,300 by March 2018. Mr N does not think this was responsible of JDW, as he could not afford the increase in payments, which has led to him falling into financial difficulty.

JDW say that Mr N's credit limit increases were always lower than his 'shadow limit, and that his credit score continued to remain stable. He also hadn't exceeded his credit limit, so they considered that the increases were affordable and that the checks they completed were proportionate.

With regards to whether the checks carried out were reasonable and proportionate, I can see that the investigator had considered JDW's obligations in line with CONC 5.2A, which isn't correct as this didn't come into force until November 2018. However, I don't consider this error to ultimately make a difference to the outcome of this case, as I'm satisfied the obligations on JDW with regards to the creditworthiness assessment were still the same.

Both the Office of Fair Trading Irresponsible lending guidance (in force between March 2010 and April 2014) and the FCA's previous CONC rules (in force between April 2014 to November 2018) required an assessment of affordability which was proportionate, in order to determine if a borrower could afford to repay the money being lent.

CONC 6.2 (in force at the time) set out that before significantly increasing the amount of credit, a lender must undertake an assessment of the customer's creditworthiness, and CONC 5.3 states that any such checks must proportionate (and includes what information should be taken into account). I appreciate that the individual increases in Mr N's credit limit were relatively small in isolation. But between August 2017 and March 2018, Mr N's credit limit had increased from £200 to £1,300 – a 550% increase over the space of seven months. So, looking at the overall cumulative increase, I'm satisfied it can reasonably be regarded as 'significant' in these circumstances. Mr N says he was only able to pay the minimum amount each month, yet he continued to receive further credit increases.

In circumstances where a consumer's finances are not shown to be stable, and they are having their credit limit increased where they could be expected to have to repay a larger amount, an affordability assessment would need to be more detailed and contain a greater degree of verification, in order for it to be considered fair, reasonable and proportionate.

Mr N had fallen into financial difficulty in the past, and there were even occasions where he had fallen into arrears and didn't make his minimum repayments by the due date. JDW had also agreed to an interest free payment period while he was experiencing financial difficulty. But while I appreciate they may not have increased his credit limit around this time, given that he did not have a stable financial history I would have expected JDW's checks to have been more detailed in order to determine whether any credit increases would be affordable for Mr N and wouldn't put him at risk of falling into financial difficulty again.

JDW say they conducted both internal and external checks before processing any credit limit increases. But they have not been able to evidence all the checks they say they carried out – for example, they have not provided any evidence of their internal credit scoring techniques and neither have they been able to demonstrate any other verification/checks they carried out into Mr N's financial position at the time (such as a review of his income and expenditure). They have provided a copy of the external data they received from the credit reference agencies. But this is not enough in itself to demonstrate that JDW has in fact carried out reasonable and proportionate checks in these circumstances.

Given Mr N's history of arrears, late payments and experiencing financial difficulty, I don't think it would have been disproportionate for JDW to carry out an income and expenditure check before implementing any further credit limit increases. However, JDW have not been able to evidence that this was carried out either. If they had carried out such checks, I'm satisfied it would have likely been apparent that any further increases in lending would not have been affordable for Mr N, and would have likely had an adverse impact on his financial position (as indeed, it eventually did).

Therefore, I'm not persuaded that JDW have acted fairly and reasonably by increasing Mr N's credit limit here, as they have not been able to evidence that they carried out reasonable and proportionate checks.

My final decision

For the reasons given above, I uphold this complaint and direct JD Williams & Company Limited to:

- Refund Mr N all interest and charges incurred as a result of any credit limit increases applied from August 2017 onwards;
- Pay 8% simple interest per year on that amount from the date he paid it to the date of settlement;
- Remove any negative information recorded on Mr N's credit file (if applicable) from August 2017 onwards.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 21 March 2022.

Jack Ferris
Ombudsman