

The complaint

Mrs W complains that Frasers Group Financial Services Limited irresponsibly provided her with a catalogue credit account and a subsequent credit limit increase (CLI).

What happened

In May 2018 Frasers accepted Mrs W's application for the account and opened it with a credit limit of £300. The credit limit was increased on one occasion, in December 2020, to £1,600.

In 2023, Mrs W complained to Frasers that it shouldn't have given her the account or the CLI. She said if Frasers had completed appropriate affordability checks at those times it would have seen that the credit was unaffordable for her.

Frasers didn't uphold the complaint. It said it had carried out appropriate checks which showed Mrs W could afford the credit it had provided her with.

Unhappy with Frasers' response, Mrs W complained to this service. Our investigator ultimately recommended that Mrs W's complaint should be upheld in part. They said the credit was likely to be unaffordable for her from the time of the CLI but not at the time of the initial lending.

Neither Frasers nor Mrs W agreed with the investigator's findings. Mrs W felt both lending decisions were unfair. Frasers maintained that the credit provided to Mrs W on both occasions was affordable for her. As such, the complaint was passed to me to review afresh.

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 uphold the complaint in part. I'll explain why.

Prior to each lending decision, Frasers was required to ensure it carried out affordability checks. That's irrespective of whether, as Frasers argued in response to the investigator's assessment, its lending criteria were met. There isn't a set list of checks it needed to complete but it needed to ensure those checks were proportionate in the circumstances. What's considered proportionate will vary taking account of things such as (but not limited to) the amount of credit, the cost, and the borrower's circumstances.

With that in mind, I confirm that I broadly agree with the investigator's findings on the initial lending decision and with their reasoning. In summary, I believe:

- Frasers didn't obtain specific information about Mrs W's level of income. But it did run checks with a credit reference agency (CRA) to build a picture around affordability.
- Frasers' lending decision and the amount of credit it was willing to provide Mrs W was based on the information it had gathered.

- The checks showed Mrs W had several active credit accounts, all but one of which had less than 50% of the credit limit being utilised. No arrears, county court judgments or significant negative markers were revealed by its checks.
- Given the lack of cause for concern in the information Frasers had gathered, and the relatively low amount of credit being extended to Mrs W (£300), I can't reasonably say that the checks it carried out weren't proportionate or that its subsequent lending decision was unfair.

I understand Mrs W's strength of feeling about Frasers' actions and their effects on her. And I assure her I've considered everything she's told us in support of her complaint. Nevertheless, I'm not satisfied overall that Frasers treated her unfairly in lending to her as it did in 2018.

I'll now address Frasers' decision to increase Mrs W's credit limit from £300 to £1,600. Broadly, the same rules and guidance I mentioned above also applied to this second lending decision.

This time, Frasers had the benefit of being able to assess how Mrs W had handled the account up to December 2020, as well as gathering the information it did the first time around and possibly more. I can't see that Frasers obtained or asked for Mrs W's income, just as it didn't do this in 2018. Instead, it seems it gathered further information from its CRA to determine her creditworthiness – which it scored highly.

That said, and as Frasers itself accepts, Mrs W struggled with the account on occasion, even when the credit limit stood at £300. For example, there were at least eight occasions on which Mrs W failed to pay Frasers on time, including in October 2020 – just two months before the CLI was applied.

Perhaps more importantly, both in October 2020 and two months prior, Mrs W advised Frasers that she was experiencing financial difficulties, causing her to miss payments.

Overall, I think the indications were that Mrs W was struggling with the existing credit limit of £300. I can't see any persuasive evidence to suggest she could sustainably cope with an extra £1,300 of credit or, at the very least, that further checks weren't warranted.

Frasers points out that Mrs W appeared to manage the account relatively well following the CLI in 2020. While I have thought about that, I've placed emphasis on what information Frasers gathered in December 2020 and what information was otherwise available to it at that time. I've avoided considering the complaint with the benefit of hindsight.

I appreciate that the CLI was offered within Frasers' internal lending criteria. But, as I've said, there were also regulatory rules and guidance that needed to be taken account of when Frasers made its decision.

Given what I've said, I think Frasers ought to have become aware that increasing Mrs W's existing credit limit by more than five times was likely to be unaffordable for her and would cause her financial difficulty. So, I don't believe Frasers made a fair lending decision, despite carrying out the checks that it did.

Having looked at this aspect of the complaint, I'm satisfied that Frasers ought not to have increased its lending to Mrs W in 2020.

Putting things right

Frasers should put things right for Mrs W in relation to the CLI, albeit she's had the benefit of the money borrowed and so may need to repay the principal amount. So, Frasers should:

- Rework the account to ensure that, from December 2020, interest is only charged on the first £300 outstanding – to reflect the fact that no credit limit increases should have been provided on the account.
- If an outstanding balance remains on the account once these adjustments have been made, Frasers should contact Mrs W to arrange a suitable repayment plan for this.
- If no outstanding balance remains, any relevant adverse information should be removed from the credit file.

And

- If the refund means there's no remaining balance on the account, any extra should be treated as overpayments and returned to Mrs W.

And

- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement†.

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

My final decision

For the reasons given, I uphold this complaint in part. I require Frasers Group Financial Services Limited to put things right for Mrs W as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 14 May 2024.

Nimish Patel
Ombudsman