

The complaint

Miss H complains that J D Williams & Company Limited (“J D Williams”), trading as Fashion World, irresponsibly granted her a catalogue shopping account she says she couldn’t afford to repay.

What happened

In June 2020 Miss H entered into an agreement with J D Williams to have access to credit by way of a Fashion World catalogue shopping account with an opening credit limit of £125. There followed a series of seven credit limit increases, beginning in October 2020 with an increase to £225 and ending in December 2021 with a credit limit increase up to £2,250. The account went into default and was passed to a third-party collection agency in September 2016.

Miss H says the account wasn’t opened by her although she went on to take responsibility for making payments.

Miss H says that J D Williams didn’t complete adequate affordability checks when it opened the account and shouldn’t have granted her the account and further credit when it allowed her the credit limit increases. She says she was already struggling financially at the time.

J D Williams has agreed to refund Miss H all the interest and charges she incurred as a result of her credit limit being increased from £1,000 to £1,400 in July 2021 – being the sixth credit limit increase she’d been given - and the final credit limit increase that followed after that. Our investigator looked into the complaint and thought the offer was fair.

Miss H wasn’t happy with this and so requested that her complaint be passed to an ombudsman for 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.

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 Miss H 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 and Miss H’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 Miss H. 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 investigator thought that the account opening and then the first five increases to Miss H's credit limit on the account, between October 2020 and February 2021, all took place when Miss H's use of her account showed that she was generally managing it well and without any significant indication that her financial situation could be at risk of deteriorating. And from the evidence and information I've seen, I don't think the level of increases was such that they raised a concern in light of her spending pattern and activity on the account.

By July 2021, however, when the credit limit was increased to £1,400 and Miss H had missed making two regular monthly payments, I think this suggested that she may have been getting into financial difficulty. And I haven't seen anything else from the credit information J D Williams had available to it from credit reference agencies to suggest that her financial situation could be worsening.

So I think by July 2021 J D Williams ought to have been put on notice that Miss H might be getting into difficulty with making payments. I can't say that there was a likelihood that she was getting into such a level of difficulty that her account ought to have been frozen or that her credit limit needed to be reduced. But I do think that two consecutive missed payments were enough to raise a concern with J D Williams so that it shouldn't have given her any further credit limit increases without carrying out more proportionate checks.

It follows that I consider J D Williams's offer to be fair and reasonable given the circumstances of this complaint.

I'm sorry to learn of the difficult personal circumstances that led to other issues arising in relation to this account. That's not something that relates directly to the question of whether the credit was granted irresponsibly or whether it was unaffordable for Miss H. However, I've seen that J D Williams has looked into these issues and provided its response. And it seems that Miss H took on responsibility for making repayments to the account and was in contact with J D Williams about issues relating to the operation of the account on several occasions without raising concerns.

It follows that unfortunately I'm not able to help Miss H further on this occasion, other than to say that the offer of compensation made by J D Williams appears to be fair and reasonable.

I therefore think J D Williams's offer to Miss H to settle the complaint is fair. My understanding is that the compensation has already been paid, but in any event I set out below the way we in which we expect it to be calculated.

Putting things right – what J D Williams needs to do

- Rework Miss H's account to ensure that from 3 July 2021 onwards interest is only charged on balances up to the total credit limit of £1,000, 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 the account once these adjustments have been made J D Williams or the third party collection business should contact Miss H to arrange a affordable repayment plan for this account. Once Miss H has repaid the outstanding balance, it should remove any adverse information recorded on Miss H's credit file from 3 July 2021 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 Miss H, 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 Miss H's credit file from 3 July 2016 onwards.†
- Given that J D Williams sold the outstanding balances on the account to a third party in September 2021, it either needs to buy the account back from the third party and make the necessary adjustments; pay an amount to the third party so it can make the necessary adjustments; or pay Miss H an amount to ensure that it fully complies with this direction.

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

My final decision

J D Williams & Company Limited has already made an offer to settle this complaint and I think that offer is fair in all the circumstances. So my decision is to partially uphold the complaint on that same basis and as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 29 May 2024.

Michael Goldberg
Ombudsman