DRN-4781761

Complaint

Mr D has complained that Chetwood Financial Limited (trading as "Wave") irresponsibly provided him with a credit card, which it then increased the credit limit on, without checking his circumstances and this made it far too easy to acquire debt.

Background

Mr D was provided with a credit card which had an initial limit of £500 by Wave in October 2021. Mr D's credit limit was increased to £900 in September 2022 before it was finally increased to £1,650.00 in April 2023.

Wave didn't think that it had done anything wrong when providing Mr D with his credit card or increasing his credit limit on either of the occasions it did. So it didn't uphold the complaint. Mr D was dissatisfied with Wave's response and referred his complaint to our service.

One of our investigators looked at everything provided and she thought that Wave had hadn't done anything wrong or treated Mr D unfairly. So she didn't think that the complaint should be upheld. Mr D disagreed with our investigator's assessment and asked for an ombudsman to review his complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully thought about everything, I've decided not to uphold Mr D's complaint. I'll explain why in a little more detail.

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.

Wave 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 Mr D could afford to repay what he 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 the consumer'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 Wave should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. 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.

I've kept all of this in mind when deciding Mr D's complaint.

Mr D's credit card was opened in October 2021 with a credit limit of £500. Mr D's credit card, under the regulator's rules and guidance, is also known as a revolving credit facility. As this was a revolving credit facility, this meant that Wave was required to understand whether Mr D could repay around £500 within a reasonable period of time. Not whether he could pay the entire amount in one go.

I understand that Wave carried out a credit check before initially agreeing to provide this credit card. Wave's credit check showed that Mr D had some existing credit commitments. But I don't think that this was excessive compared to Mr D declared income which had been validated against information Wave obtained from credit reference agencies on the amount of funds Mr D was receiving into his main bank account each month. Furthermore, Mr D appears to have been managing these commitments reasonably well.

What is important to note is that a credit limit of £500 would have required relatively low monthly payments in order to clear the full amount owed within a reasonable period of time. And the information I've seen about Mr D's circumstances does suggest that he had the funds to make these payments. As this is the case, I'm satisfied that it wasn't unreasonable for Wave to have agreed to open Mr D's credit card for him.

As I've explained in the background section of this decision, Wave subsequently increased Mr D's credit limit on two occasions until it eventually reached £1,650.00 in April 2023. Wave has said that it carried out credit searches on Mr D and considered this in conjunction with relying on Mr D's conduct and record on her credit card when deciding if it should make additional amounts available to him.

However, while I accept that Mr D's was managing his account well (he was making payments of an amount sufficient to repay the highest credit limit he was given within a reasonable period of time), I don't think that this on its own was sufficient to conclude that these limit increases were affordable.

In my view, given the amount Mr D would be expected to pay on the increased limits, I would have expected Wave to have found out more about Mr D's expenditure (particularly about his actual regular living expenses) before offering these increased funds. Wave has been unable to evidence having done this in this instance. As this is the case, I don't think that the checks it carried out before it provided the limit increases were reasonable and proportionate.

Ordinarily, where a firm failed to carry out reasonable and proportionate checks before providing credit or increasing the amount available to a customer, I'd usually go on to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown.

However, I don't think that Wave attempting to find out further information about Mr D's living costs would have made a difference here. I say this because I've not seen anything that shows me that when Mr D's committed non-discretionary regular living expenses and existing credit commitments were deducted from what he received each month, he did not have the funds to make sustainable repayments to the balances that could have been owed as a result of the limit increases.

So, in these circumstances, it's difficult for me to conclude that Wave wouldn't have lent even if it had tried to find out more about Mr D's regular living costs at the respective times.

I do accept that Mr D's actual circumstances at the time may have been worse than what the information about his living costs shows. For example, having looked at Mr D's bank statements I have an idea why Mr D might be finding it difficult to make his payments going forward. It's also possible – but by no means certain – that Wave might have decided against lending to Mr D had it seen this.

But the truth is, given the circumstances here and what Wave needed to find out, I don't think that reasonable and proportionate checks would have extended into obtaining bank statements – especially as bank statements weren't the only way that Wave could find out about Mr D's living expenses in the first place.

And proportionate checks certainly wouldn't have gone into the level of granularity that Mr D appears to be suggesting that they should have done here. So I don't think that Wave was aware, or that it could reasonably have been aware, of Mr D's additional spending – particularly as he was clearing his account balance each month in the period leading up to the largest limit increase.

Overall and having considered everything I'm not upholding Mr D's complaint. I appreciate this will be very disappointing for Mr D. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 5 June 2024.

Jeshen Narayanan
Ombudsman