

The complaint

Mr C complains that Next Retail Limited trading as Next provided him with credit he says he couldn't afford to repay.

What happened

Mr C took out a catalogue shopping account with Next in May 2021. He was provided with a credit limit of £300, which wasn't increased.

Mr C says that Next shouldn't have provided him with this credit and he struggled to pay back what he owed. He says he had to rely on his family to repay the debt. Mr C says the unaffordable lending affected his mental health and credit score.

Next replied to Mr C's complaint but it didn't uphold it. Next explained that it had carried out proportionate checks before agreeing to provide Mr C with credit and decided to offer him a relatively low limit of £300. It explained that many of the payments Mr C made to the account were higher than the minimum due. It also explained that in November 2021, it received information from the credit reference agency which suggested an affordability issue and so it suspended the credit limit on Mr C's account.

An Investigator consider what both parties had said, but they didn't uphold Mr C's complaint. They explained that while they thought Next should have done more to check Mr C's income, they didn't think that better checks would have shown that a credit limit of £300 was unaffordable. And so, they didn't think Next's decision to provide Mr C with credit was unreasonable.

Mr C didn't agree with the Investigator and asked for an Ombudsman to decide on the matter.

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 won't be upholding Mr C's complaint.

The rules and regulations in place at the time Mr C was provided with the credit, required Next to carry out a reasonable and proportionate assessment of whether Mr C could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an 'affordability assessment' or 'affordability check'.

The checks had to be 'borrower' focused. This means Next had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr C. In other words, it wasn't enough for Next to consider the likelihood of it getting the funds back – it had to consider the impact of any repayments on Mr C.

Checks also had to be 'proportionate' to the specific circumstances of the lending. In

general, what constitutes a proportionate affordability check will be dependent on a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they were seeking. I've kept all of this in mind when thinking about whether Next did what it needed to before agreeing to lend to Mr C.

I can see that Next considered Mr C's existing credit commitments. Its credit check showed that Mr C had 14 active accounts. The accounts all appeared to be up to date at the point Mr C applied for the Next account. I can see that Mr C had a CCJ and a defaulted account, however this appears to have happened more than two years prior to Mr C taking out the account. There isn't any information in the credit check that I think ought to have alerted Next that Mr C might not have been able to afford a credit limit of £300.

From the information I've been provided with, it doesn't appear that Next asked Mr C about his income at the time it agreed to provide him with the credit. And while there isn't any specific regulation that says it must do this, the rules do say that a firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer's current income. I think it would have been reasonable for Next to have understood more about how much income Mr C was receiving so it could reasonably understand if Mr C could afford to sustainably repay a £300 limit.

That being said, I've had a look at Mr C's statements in the months leading up to him taking out the account. I can see in the three months prior to him taking out the account, on average he was receiving around £1,900 per month. So even if Next had checked Mr C's income, I don't think this would have changed its decision to lend to him.

Taking all this into consideration, I'm not persuaded the checks Next carried out were likely enough, however the information Mr C has provided about his income, coupled with the information Next obtained from a credit search suggests that Mr C would likely be able to sustainably afford the repayments at a credit limit of £300. So I don't find that Next's decision to provide Mr C with a credit limit of £300 was unfair or unreasonable.

My final decision

For the reasons set out above, I don't uphold Mr C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 26 June 2024.

Sophie Wilkinson
Ombudsman