

The complaint

Mr H is complaining that Grattan Plc trading as Kaleidoscope lent to him irresponsibly by providing him with, and then repeatedly increasing the credit limit on, a catalogue shopping account.

What happened

In July 2016, Kaleidoscope approved Mr H's application for credit, giving him a credit limit of £100. They increased his credit limit a number of times, as follows:

Date	New credit limit
July 2017	£300
September 2017	£500
November 2018	£700
March 2019	£900
September 2019	£1,100
February 2020	£1,300
July 2020	£1,500
October 2020	£1,700
December 2020	£1,900
April 2021	£2,100
August 2021	£2,300
November 2021	£2,500
April 2022	£2,700

In November 2023, the account entered "Persistent Debt" status, with Mr H paying more in interest and charges than the underlying borrowing. Kaleidoscope informed Mr H and reduced his credit limit to £2,200.

Mr H complained to Kaleidoscope in March 2024, saying they shouldn't have allowed him to open an account, or increased his credit limit. He said proper checks would have shown he was struggling with his finances and was having to increase his borrowing elsewhere in order to make payments on this account.

In response, Kaleidoscope said that they'd obtained data about Mr H from a credit reference agency (CRA) which supported their decision to accept his application. They also said they reviewed Mr H's account history and his credit file before each credit limit increase (CLI). Each time, they said, both the account history and credit file suggested Mr H had a responsible approach to the use of credit. They said they'd seen nothing to suggest the increases were unaffordable and there were no missed or late payments until March 2023.

Kaleidoscope added that the increases above £2,300 weren't used, with the balances always remaining below £2,300.

In summary, Kaleidoscope said they'd carried out appropriate and proportionate checks before lending to Mr H and hadn't seen any signs that the credit was unaffordable, so they didn't uphold his complaint.

Mr H remained unhappy so brought his complaint to our service. In doing so, he added that his wife was in a worse financial position than himself and that should also have influenced Kaleidoscope's lending decisions. He said he'd struggled financially to keep up with the payments and on many occasions been unable to buy necessities or had to borrow more to do so.

Kaleidoscope consented to us looking into all of their lending decisions and the complaint was passed to one of our investigators. She said she thought Kaleidoscope had done enough checks for all of the lending up to and including the credit limit increase to £1,700 – and had made a fair decision each time to increase Mr H's limit. She said she thought Kaleidoscope should have done more before increasing the limit to £1,900 and to £2,100, but when she reviewed Mr H's bank statements, she thought Kaleidoscope could have fairly decided the lending was affordable. In relation to the final three credit limit increases, our investigator said as Mr H's balance hadn't exceeded £2,200, he hadn't been impacted by these increases.

Mr H was unhappy with our investigator's view and asked for an ombudsman to look at it. He said he thought his wife's finances should have been taken into account as well as his own, adding that his income was from a joint benefit claim so had to cover her expenditure as well. The complaint was passed to me for a decision.

I issued a provisional decision on 22 January, saying I didn't intend to uphold Mr H's complaint, but for slightly different reasons to those of our investigator. In that provisional decision I said:

"What's required of lenders?"

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer, or when increasing the amount they lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case. For each lending decision, I've considered below whether Kaleidoscope carried out proportionate checks, and whether they made a fair lending decision based on the results of those checks.

What checks did Kaleidoscope carry out?

Before deciding to lend to Mr H initially, Kaleidoscope carried out a detailed credit check. They repeated this before each credit limit increase, and also reviewed his account history. I've seen no evidence Kaleidoscope carried out any other checks.

Whether or not these checks were proportionate depends on the amount being lent, and what Kaleidoscope found.

At opening

At opening, the credit limit was only £100. So it wouldn't have been proportionate for Kaleidoscope to carry out extensive checks. Mr H's credit file showed he'd been managing his credit well – it suggested he had no defaults or County Court Judgments on file and hadn't missed any payments for over 30 months. His active credit balances totalled around £384 – so he didn't have significant credit commitments. Looking at Mr H's credit file for January 2017, it appears he did have a default at the time the account was opened. But this default was already around 40 months old at that point, so I wouldn't consider it an indicator of current financial difficulty even if Kaleidoscope's credit check at the time had identified it.

Taking all this into account, I can't say Kaleidoscope shouldn't have opened Mr H's account with a limit of £100 – there were no indications he was in any financial difficulties, and he was managing his existing repayments well, so it was likely he'd be able to manage the additional payments a credit limit of £100 would require.

Credit limit increases up to March 2019

For the first three years Mr H had the account, his credit limit remained under £1,000. He was making all his payments on time and usually paid more than the minimum required.

In addition, Mr H's credit file shows he had no missed payments on external credit and his default balance was gradually reducing – it looks like this was paid off in full in December 2018. Up until this point, Mr H's total credit balance was also reducing but it started to increase in February 2019. I don't think the increase in this month or March 2019 ought to have been concerning for Kaleidoscope though, and I'm satisfied that the checks Kaleidoscope did (reviewing Mr H's transaction history and credit file) were proportionate for credit limit increases up to and including the increase in March 2019 to £900. I'm also satisfied Kaleidoscope made a fair decision to lend based on what they found.

September 2019 to December 2020

By September 2019, Mr H's external credit had risen to around £4,300 from around £2,600 in March 2019. So he was becoming significantly more indebted. Looking at his credit file, I can see he still didn't have any missed payments or other adverse information on file. But I'd have thought the increase in indebtedness ought to have been a cause for some concern for Kaleidoscope.

Looking at Mr H's account history, he was still making all his payments on time, and generally paying more than the minimum. But he was only paying on average around £4 per month over the minimum – not enough to sustain a £200 credit limit increase.

With a credit limit of £1,100, Mr H would need to pay around £60 to £80 per month in order to pay off the credit within a reasonable timeframe. And with a credit limit of £1,900, this would have been more like £100 to £140. I don't think Kaleidoscope gathered enough evidence that this would be sustainable for Mr H. I haven't seen that they'd ever asked Mr H what his income was, or verified that figure. In summary, I don't think Kaleidoscope's checks were reasonable or proportionate once the credit limit went over £1,000 and given Mr H's external credit had increased.

As a minimum, I'm inclined to say Kaleidoscope should have verified Mr H's income before increasing his limit in September 2019.

What would Kaleidoscope have found if they had done proportionate checks?

I've reviewed Mr H's bank statements to understand what Kaleidoscope might have found if they'd done proportionate checks. I'm not saying Kaleidoscope ought to have reviewed Mr H's bank statements – but they do give a good indication of his financial circumstances at the time of Kaleidoscope's lending decisions.

Mr H's primary bank account was held jointly with his wife Mrs H. And he's told us the income that was being paid into this account was joint to some extent – his only income was from a range of benefits and some of these were on a joint claim. In total, in the three months leading up to September 2019, Mr and Mrs H's benefits averaged around £3,150 per month. I think if Kaleidoscope had done more checks, they'd have found it difficult to split this out in a meaningful way and therefore would have had to consider Mr and Mrs H's joint income.

But I think it would have been reasonable for Kaleidoscope to lend to Mr H based on a joint income of £3,150 per month. This would have seemed like enough to cover living expenses and credit commitments for Mr H and his wife. I'm inclined to say Kaleidoscope then wouldn't have needed to do any additional checks until around April 2021 as Mr H's access to income suggested the credit was likely to be affordable.

April 2021

By April 2021, Mr H's total credit had increased to around £8,400. This was a significant increase compared to £4,300 around 18 months earlier. As well as being a potential warning that Mr H might be entering a debt spiral, it would have meant he had much higher credit commitments – he'd likely need to pay his creditors at least £400 per month.

On that basis, I think Kaleidoscope would have needed to understand Mr H's expenditure as well as his income in order to check the credit limit of £2,100 would be affordable for him.

Looking at Mr H's joint bank account statements for the months leading up to the April 2021 credit limit increase I can see the benefit income had increased to around £3,400 per month on average. Mr H and his wife's rent was £700 per month and they paid an average of £120 per month for their bills. They spent around £1,150 a month on food and fuel, around £60 on insurances, and around £300 on communications and TV contracts. Finally, they were paying around £800 per month to creditors (including Kaleidoscope).

Taking all this together it appears Mr and Mrs H had around £270 monthly disposable income at the time of this credit limit increase. The credit limit increase of £200 would suggest monthly payments might need to increase by up to £20. So I'm inclined to say if Kaleidoscope had done proportionate checks they'd have been able to fairly say this credit limit increase was affordable for Mr H.

August 2021 to April 2022

Mr H didn't use these last three limit increases – his balance didn't exceed £2,200. So I've not looked into whether or not they were affordable – the lending decisions had no financial impact on Mr H.

Summary

In summary, I think Kaleidoscope carried out proportionate checks and made a fair lending decision for each lending decision up to £1,000. After that, I think they should have carried out more checks because of the increase in Mr H's debts. But if they had, I think they'd have been able to fairly decide to lend to Mr H. So it follows I don't think Kaleidoscope need to do anything differently in relation to Mr H's complaint.

Did Kaleidoscope treat Mr H unfairly in any other way?

Mr H maintained his account well, making late payments on only two separate occasions – in March 2023 and August 2023. In November 2023, Kaleidoscope wrote to Mr H advising him his account was entering a persistent debt status, and reducing his credit limit. Mr H didn't respond to the letter and continued to make payments in the same way as he had before. Mr H fell into arrears only shortly before making this complaint – and I can't see he contacted Kaleidoscope to discuss his arrears or financial difficulties. So I can't say Kaleidoscope should have done anything differently in this respect.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Kaleidoscope lent irresponsibly to Mr H or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here."

Kaleidoscope didn't reply to my provisional decision, but Mr H did. In summary he said:

- Because he and his wife shared a joint account, Kaleidoscope should have taken into consideration his wife's liabilities – some of which she wasn't paying because they couldn't afford to cover both his and his wife's payments.
- He'd been advised that some of his benefits shouldn't be treated as income for debt repayments as it's to pay for his own social care and for the care and wellbeing of his children.

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 not to uphold Mr H's complaint. I'll explain further below.

Should Kaleidoscope have taken Mrs H's liabilities into consideration?

Mr H has told us that he and his wife couldn't afford to pay all their creditors so weren't paying all of hers. He's said Kaleidoscope should have checked her credit file as well as his because they were financially linked through their joint account. Whilst Kaleidoscope could have checked Mrs H's credit file, I can't say they should have done. That's because Mr H hadn't applied for a joint account and each time Kaleidoscope increased his credit limit, the

increase in monthly payments needed would be no more than £20. So I don't think Kaleidoscope needed to understand Mrs H's liabilities in order to carry out proportionate checks.

In my provisional decision I considered what Mr and Mrs H were paying to their creditors. So I can understand why Mr H may think that I ought to have also taken into account any additional payments they ought to have been making. But my calculations were an estimate of what Kaleidoscope might have found if they'd done proportionate checks. I can't say that Kaleidoscope ought to have found out how much Mrs H owed her creditors.

Availability of income for debt repayments

Mr H thinks it wouldn't have been appropriate for Kaleidoscope to include all of his income in an affordability assessment. I appreciate that some of his income is intended for specific purposes and can't be taken as part of a legal action to collect debts - but that doesn't mean that it can't be included within a broad affordability assessment. When I looked at what Kaleidoscope would likely have found if they had done proportionate checks I considered all of Mr H's regular expenditure – so I'm satisfied it was reasonable to consider all his regular income.

In summary, Mr H's comments haven't changed my mind – so my final decision is unchanged from my provisional decision.

My final decision

As I've explained above, I'm not upholding Mr H's complaint about Grattan Plc trading as Kaleidoscope.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 10 March 2025.

Clare King
Ombudsman