DRN-5344670

Financial Ombudsman Service

Complaint

Ms F says Frasers Group Financial Services Limited (trading as "Ace") irresponsibly increased the credit limit on her catalogue shopping account.

Background

This complaint is about a catalogue shopping account Ace initially provided to Ms F in January 2012. Due to the length of time that has passed since the account was opened there is limited information remaining about it. However, Ace has confirmed that the limit on the account was increased from £1,000.00 to £1,950.00 in November 2020. Ms F has confirmed that she is only complaining about this credit limit increase.

Our of our investigators reviewed Ms F's complaint and she thought that proportionate checks ought to have shown Ace that it shouldn't have increased Ms F limit to £1,950.00 in November 2020. So she recommended that the complaint be upheld.

I understand that Ms F fell into difficulty and ended up defaulting on the account and Ace sold a debt to a third-party debt purchaser in or around November 2020.

Ace didn't accept the investigator's conclusions. So the complaint was passed to an ombudsman as per the usual next stage of our process.

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 considered everything, I've decided to uphold Ms F's complaint. I'll now proceed to explain why I've decided to do so in a bit 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.

Ace 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 Ms F 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 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 Ace 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.

Our investigator set out, in some detail, why she thought Ace unfairly increased Ms F's credit limit in November 2020. Ace disagreed with our investigator's conclusions saying:

- Ms F only had a single missed payment over 18 months prior to the limit increase and Ms F hadn't exceeded her limit.
- The account had been fully repaid from time to time with the most recent time being seven months prior to the limit increase.
- There was a low limit utilisation of the account.
- Ms F was making payments in excess of the contractual minimum in the period leading up to the limit increase.

I've considered what Ace has said and have also looked at the overall pattern of its lending history with Ms F together with all of the information that's been provided here. And having carefully considered everything, I also think that the limit increase in November 2020 should not have been provided.

In the first instance, while it is fair to say that Ms F did clear her balance in full in April 2020, it is clear that she was once again using around 80% to 85% (depending on the inclusion of the interest) of the credit available to her on this account at the time of the limit increase. Therefore, I don't think that Ms F clearing the balance is that relevant. Equally, while I accept that Ms F wasn't over her limit, I don't agree that she had a low limit utilisation at the time the increase was applied.

In any event, at best, this are considerations in relation to whether Ms F was managing the credit she already had. And what Ace needed to consider at this point was whether Ms F would be able to repay £1,950.00 plus any interest accrued within a reasonable period of time, as this is what there was the potential for her to have to repay. Not whether Ms F was able to repay £1,000.00 within a reasonable period of time.

I think that this is important because while Ace has referred to Ms F's payments in the lead up to this increase being above the minimum, I don't think that the payments were even enough to cover the interest that would be due had the full £1,950.00 been drawn down. So I don't think that Ms F's repayment record in itself demonstrated that Ms F could repay £1,950.00 within a reasonable period of time.

It is clear to see that Ms F's total debt and revolving credit commitments increased exponentially between when the account was initially provided in January 2015 and when the limit increase in question was offered some ten months later. Ace says that Ms F was using a lower percentage of her available credit at the time of the limit increase than she was when the account was provided.

As this is what Ace relied on in order to determine that Ms F could afford the limit increase, I've not been persuaded that the checks it carried out before increasing Ms F's limit to £1,950.00 in November 2020 were reasonable and proportionate.

In my view, bearing in mind all the circumstances, proportionate checks would have required finding out about Ms F's other credit commitments as well as her actual living costs. I've therefore considered the information Ms F has provided with a view to determining what Ace is likely to have seen if it had carried out such checks.

In the first instance, it's worth noting that Ms F's credit limit was being increased to an amount that was almost twice her monthly income. Given Ms F's annual income only just about reached the threshold where she would pay income tax, I think it's fair to say that her income was low. I can also see that Ms was regularly borrowing from a number of payday and other high-cost lenders.

Having looked at Ms F's bank statements I do have an idea why her expenditure was high. I don't think that that proportionate checks would necessarily have led to Ace discovering this. But I do think that such checks are likely to have highlighted Ms F's increasing reliance on unsustainable forms of credit. I think Ace finding out this will have shown it that Ms F was not in a position to repay £1,950.00 within a reasonable period of time. And that there was a significant risk increasing Ms F's credit limit at this point (and subsequently as it did) given her indebtedness increased even more, would lead to her indebtedness increasing unsustainably.

As Ace increased Ms F's credit limit in November 2020, in these circumstances, I'm satisfied that it failed to act fairly and reasonably towards her. I also think that Ms F lost out as a result of Ace failing to act fairly and reasonably towards her.

I'm satisfied this is the case because Ace increasing Ms F's credit limit in November 2020 not only unfairly prolonged Ms F's indebtedness, by allowing her to use additional credit she couldn't afford over an extended period of time, it also increased the interest she had to pay and got her into further debt. So I'm satisfied that Ace now needs to put things right.

Fair compensation – what Ace needs to do to put things right for Ms F

- rework the account (including any payments made to the third-party debt purchaser) to ensure that from November 2020 onwards interest is only charged on the first £1,000.00 outstanding to reflect the fact that the credit limit increase to £1,950.00 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, Ms F will need to contact the third-party to arrange a suitable repayment plan for this. If Ace considers it appropriate to record negative information on Ms F's credit file, it should backdate this to November 2020.

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 Ms F, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Ace should remove any adverse information (it has recorded) from Ms F's credit file†.

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

It is my understanding that Ace sold the outstanding balance on this account to a third-party debt purchaser. So, in order to comply with this final decision, if after having carried out the calculations above an outstanding balance remains, Ace would either need to buy the account back from the third party and make the necessary adjustments, or pay an amount to the third party in order for it to make the necessary reductions on what might still be owing, or make a payment directly to Ms F.

If Ms F has settled the account already then any compensation due (when any payments made to the debt purchaser are taken into account) should be paid directly to Ms F.

My final decision

For the reasons set out above, I'm upholding Ms F's complaint. Frasers Group Financial Services Limited (trading as Ace) should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms F to accept or reject my decision before 24 March 2025.

Jeshen Narayanan
Ombudsman