

The complaint

Miss A has complained that Next Retail Limited, trading as Next Online (“Next”) irresponsibly granted her a credit account, and subsequently increased her credit limit, which she couldn’t afford to repay.

What happened

Miss A took out a credit account with Next in December 2020. Next mentioned a credit limit of £450, but the credit agreement and records sent in by Next show £600. In July 2021 this increased to £900. In September 2021, Next offered to increase the limit to £1,500 but Miss A declined this. In January 2022, Next again offered to increase the limit to £1,500, but Miss A chose to take a limit of £1,200. Miss A and Next said the highest balance was £1,083.33 in March 2022.

In May 2022, Next decreased the limit to £150, and in October 2022, it suspended the credit facility. Next said it set up a reduced payment plan (without interest) in May 2022, which Miss A completed, and a new reduced payment plan (without interest) in April 2023. As it didn’t receive payment, the plan was deemed to be broken in June 2023 and in the same month, it issued a default notice.

Miss A said that she had a young baby when she took out the credit, and then after having her second child in June 2022 she stopped working because of childcare costs. She said she was in financial difficulties throughout, and shouldn’t have been granted the credit or the increases in the limit.

Miss A complained to Next, saying she’d like a refund of interest and charges, and for Next to reduce her balance to what she was first offered and arrange a repayment plan for the remaining balance. However, Next said in its final response letter to Miss A (in July 2023) that it didn’t uphold her complaint.

Miss A was unhappy with this, so brought her complaint to this service. Our investigator looked into Miss A’s complaint, and thought it should be upheld in relation to the credit limit increase in January 2022. Next didn’t agree, so the complaint came to me for review.

I issued a provisional decision in March 2024, in which I explained why I considered that Miss A’s complaint should be upheld in relation to the credit limit increases in July 2021 and January 2022. Both parties have responded, saying they had nothing further to add.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided to uphold Miss A’s complaint in part. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether Next completed reasonable and proportionate checks to satisfy itself that Miss A would be able to make the repayments on the account in a sustainable way.

I set out my reasoning in my provisional decision as follows:

"Next sent in a document setting out how it assesses affordability (although it didn't provide the details of the checks it made specifically on Miss A's circumstances), along with its notes of its contact with Miss A, and her account history. Miss A sent in various bank statements for the periods leading up to the credit being granted and the limit increased. Since our investigator issued his view, Miss A has also provided a copy of her credit file.

In summary, Next said it uses data from one of the credit reference agencies (CRA) to check affordability. It generally would not carry out an income and expenditure assessment where a relatively low level of credit is offered, there are no current signs of financial difficulty, and no adverse information is shown on the CRA check. Once credit is granted, information from the CRA is reviewed monthly. I've taken it that these were the types of checks carried out for Miss A's account.

December 2020 – account opened - £600 limit

I've looked at Miss A's bank statements for the three months leading up to her taking out the Next account. Her average monthly income was just under £1,300. I could only see one other credit commitment – a loan with a monthly payment of around £40 – which is as shown on her credit file. It's difficult to get a clear picture of Miss A's essential living expenses, as many of the transactions are via debit card so aren't easily identifiable. Nonetheless, although Miss A was in overdraft for part of the month, the current account remained largely in credit and I've no evidence that, at this point, she was overcommitted, or in financial difficulty.

Although I don't have any details of the figures used by Next in its assessment of Miss A's specific circumstances, I don't think there's anything from the statements or credit file to suggest that Next ought to have been prompted to review Miss A's income and outgoings in more detail, or that the repayments to the Next account would've been unaffordable or unsustainable.

Taking all this into account, I can't fairly say that Next didn't carry out appropriate checks before opening the account, or that it acted unfairly in accepting Miss A's application for credit.

July 2021 – credit limit increase - £900

Again I've looked at Miss A's credit file and bank statements for the months leading up to the credit increase.

Miss A's monthly income had decreased by nearly half – it was an average of £650 over the three months leading up to the loan, although there was an additional amount of around £85 in respect of child benefit. I can see two loan payments totalling around £87 per month.

Again, it's difficult to get a clear picture of Miss A's essential living expenses, as many of the transactions are via debit card so aren't easily identifiable. But by this point Miss A's current account was in overdraft for all but a few days per month. And from the evidence I have, it looks as though Miss A was exceeding her overdraft limit on her current account on a regular basis.

As before, I don't have any details of the figures used by Next in its assessment of Miss A's specific circumstances. But I think Miss A's reduced income and increased loan payments, as well as her overdraft, would've been reflected on the credit reference information that Next received. So I think this ought reasonably have prompted Next to make further enquiries of Miss A before increasing her credit limit.

Next would've required a monthly payment of £45 on a balance of £900, and had it investigated further, I think it would most likely have found that payments on an increased level of credit were unlikely to be sustainable. I say this because, given Miss A's reduced income, and the overdraft situation on her current account, I think she would effectively have been making the repayments on the Next account from other borrowing. So I don't think Next acted fairly in increasing Miss A's credit limit above £600.

January 2022 – credit limit increase - £1,200

Miss A's credit file and bank statements for the months leading up to this increase show that her financial circumstances had deteriorated further. Her average monthly income was under £600 (including child benefit). And I can see two loan payments totalling just under £280 per month.

As before, I don't have a detailed breakdown of Miss A's living expenses. But Miss A's current account was in overdraft for all but a few days per month. And again it looks as though Miss A was exceeding her overdraft limit on her current account on a regular basis. I can also see some unpaid direct debits shown on these statements. I think her worsening situation would again have been reflected on the credit reference information obtained by Next.

Again I think this ought reasonably to have prompted Next to make further enquiries of Miss A before increasing her credit limit even further. Next would've required a monthly payment of £60 on a balance of £1,200, and had it investigated further, I think it would again have found that payments on an increased level of credit were unlikely to be affordable or sustainable. Given the continuing overdraft on Miss A's current account, I think she would again have been making the repayments on the Next account from other borrowing. So I don't think Next acted fairly in increasing Miss A's credit limit even further."

I said that, in summary, I didn't think Next had acted fairly in increasing Miss A's credit limit above £600, and therefore I was proposing to uphold her complaint in respect of the increases to the credit limit from July 2021 onwards.

As I noted above, both parties sent in their responses to my provisional decision, and neither had anything to add. As no new evidence or information has been provided, I have no reason to change my conclusions. Therefore I am upholding Miss A's complaint in respect of the increases to the credit limit from July 2021 onwards.

Putting things right

Next should compensate Miss A as follows:

- Rework the account, removing all interest, fees, charges, and insurances (not already

refunded) that have been applied to balances above £600 after 1 July 2021;

- If the rework results in a credit balance, this should be refunded to Miss A, along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Next should also remove all adverse information recorded after 1 July 2021 regarding this account from Miss A's credit file;
- Or, if after the rework the outstanding balance still exceeds £600, Next should arrange an affordable repayment plan with Miss A for the remaining amount. Once Miss A has cleared the outstanding balance, any adverse information recorded after 1 July 2021 in relation to the account should be removed from her credit file;
- If Next has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Next to deduct tax from any award of interest. Next must give Miss A a certificate showing how much tax has been taken off if she asks for one. If Next intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons I've explained, I've decided to uphold Miss A's complaint in part – that is in relation to the credit limit increases from 1 July 2021 onwards - and to require Next Retail Limited to compensate Miss A as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 3 April 2024.

Jan Ferrari
Ombudsman