

The complaint

Miss K complains that LRUK (RETAIL) LIMITED trading as La Redoute (“LRUK”) irresponsibly gave her a running account credit facility that she couldn’t afford.

What happened

In May 2020, Miss K applied for a credit account with LRUK. She was given an initial credit limit of £100. The credit limit was increased to £110 and then to £400, £430, £450, £480, £490, and £500.

The increase to £400 was done following Miss K requesting an increased limit, and to £430 when she placed orders that took the account balance over that credit limit. But the other increases were done automatically by LRUK so that interest and charges didn’t take the account over its agreed credit limit.

LRUK defaulted the account in September 2021 after it had received no contact or payments from Miss K for several months.

In September 2022, Miss K complained to LRUK to say the account shouldn’t have been opened for her and the credit limit increases shouldn’t have been allowed because it wasn’t affordable for her.

Our investigator didn’t recommend the complaint be upheld, because they didn’t think LRUK had done anything wrong in offering the credit (including the limit increases) or in defaulting the account.

Miss K disagreed. As such, I’ve been asked to make a decision on this complaint.

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.

LRUK will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t think it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Initial lending decision

Prior to providing credit to Miss K, LRUK says it carried out a credit check. It said the results of this satisfied it that Miss K could afford a limit of £100. There isn’t a set criterion for what a proportionate check ought to encompass.

Given that LRUK was proposing to give Miss K a modest credit limit of only £100 which required only small monthly repayments, I don’t think it was necessary for it to verify Miss K’s

income or ask about her other committed expenditure (beyond anything shown on the credit report).

Miss K says her credit score and history meant she shouldn't have been given this credit. But I've not seen anything that would indicate the lending was unaffordable or that the decision to provide credit of up to £100 was irresponsible in May 2020.

Credit limit increase to £110

In October 2020 LRUK increased the credit limit to £110. It said it did this because Miss K missed her minimum payment that month, resulting in a late payment fee that took the balance beyond the £100 credit limit. This prevented adverse information having to be reported to credit reference agencies, which LRUK thought would be helpful to Miss K.

I do not think this was a reasonable decision. That Miss K missed her payment could be an indication of financial difficulties, although in this case she made a payment shortly afterwards. So, I don't think that was the case here. But it does not seem appropriate to make more credit available to Miss K indefinitely in response to a missed payment on the account.

Also, by increasing the credit limit, rather than reporting a missed payment to the credit reference agencies, it seems that the information LRUK reported to credit reference agencies was not a fair reflection of Miss K's account management.

Despite this, there appears to have been no loss caused by LRUK's decision. This is because Miss K did not make any additional purchases as a result of the limit increase, the limit increase did not delay when LRUK ultimately defaulted the account, and the late payment fees and interest added would've been the same (if not higher) had the limit not been increased.

Credit limit increase to £400 in March 2021

Miss K requested a credit limit increase in March 2021. LRUK agreed a new limit of £400 based on Miss K's management of her account alongside a credit check. This showed that Miss K had missed two payments in the previous 12 months. That she had opened some new credit accounts including one fixed term loan. This had increased her overall revolving account credit from £100 (on her LRUK account) to £1,960 by March 2021. In addition to this Miss K had fixed term loan repayments totalling £292 per month.

Other than the two missed payments, which appear to have been quickly rectified, Miss K appeared to be keeping her accounts up to date. She had taken out additional credit but her overall indebtedness and repayments did not appear at that stage to indicate a problem. The increase to her credit limit was relatively small.

So, I don't think it was necessary for LRUk to verify Miss K's income or ask about her other committed expenditure (outside of the credit commitments the credit check showed).

Overall, I don't think LRUk's decision to increase the credit limit was unreasonable at that time.

Credit limit increase to £430 in March 2021

LRUK says that Miss K placed orders on her account that would take her beyond the existing £400 credit limit. And that it decided to allow those orders to go ahead, increasing the credit limit to accommodate this.

Given this was soon after Miss K had requested a credit limit increase, it didn't appear there had been any significant change in her circumstances and the additional amount of credit was small, I do not think this was an unreasonable decision.

Credit limit increases from May 2021 to August 2021

LRUK increased the credit limit on the account as follows:

- 23-May-21 to £450
- 23-Jun-21 to £480
- 23-Jul-21 to £490
- 23-Aug-21 to £500

In each case the increase was as a result of interest and charges on the account taking it above the previous limit.

I do not think these were reasonable decisions. That Miss K missed a payment could be an indication of financial difficulties. It does not seem appropriate to make more credit available to Miss K indefinitely in response to a missed payment on the account.

Also, by increasing the credit limit, rather than reporting a missed payment to the credit reference agencies, it seems that the information LRUk reported to credit reference agencies was not a fair reflection of Miss K's account management.

During this time Miss K failed to make any payments to the account. Despite this, there appears to have been no loss caused by LRUk's decisions. This is because Miss K did not make any additional purchases as a result of the limit increase, the limit increase did not delay when LRUk ultimately defaulted the account, and the late payment fees and interest added would've been the same (if not higher) had the limit not been increased.

Summary

I have found that some of LRUk's lending decisions were not appropriate. However, I have also found that those decisions did not cause Miss K any loss or material distress and inconvenience. So, I make no award in this case, and do not uphold the complaint.

My final decision

For the reasons I've explained, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept

or reject my decision before 26 December 2023.

Phillip Lai-Fang
Ombudsman