

The complaint

Mr K complains that Shop Direct Finance Company Limited, trading as Littlewoods (SDFC) lent to him irresponsibly.

What happened

Mr K opened a catalogue shopping account with SDFC in September 2016. His credit limit was increased from £500 to £1000 in April 2017. His account defaulted in January 2018 and the debt was sold to a third party the following month.

Mr K complained to SDFC saying it didn't adequately consider if the credit was affordable for him and it recorded an incorrect and unlawful default on his credit file. He asked for all interest and charges to be refunded, with interest, and for any negative information on his credit file to be deleted. At the same time he made a complaint about the payment protection insurance sold on his account and he says this is the only issue SDFC addressed. So he brought his irresponsible lending complaint to this service.

At around the same time SDFC responded in full to Mr K's irresponsible lending complaint accepting it shouldn't have increased Mr K's credit limit. It refunded, with interest, fees and charges that it had applied to his account from April 2017 until it sold the debt. It said the negative information on Mr K's file had been reported by the third-party debt collector.

Our adjudicator said SDFC's response to Mr K was fair and reasonable. He went on to consider SDFC's checks when it opened the account, and how it had managed the account when it fell into arrears. He found no failings on the lender's part. He explained if Mr K wanted the actions of the third-party debt collector to be looked into he would need to first complain to them, but he'd seen no evidence adverse information had been incorrectly recorded on Mr K's file.

Mr K disagreed with these findings. He said he wasn't notified about the debt sale and SDFC's irresponsible lending increased his debt with multiple fees and charges and damaged his credit file unfairly. Our adjudicator confirmed SDFC issued a default notice on 8 January 2018 and the terms of his agreement allowed it to sell the debt. The debt mainly resulted from Mr K's catalogue shopping, only a small amount (less than 10%) was from charges and SDFC had refunded these. So he could not agree SDFC had done anything wrong, that it hadn't already put right.

Mr K still felt we had not addressed his point about SDFC offering him credit given his low income so the complaint was passed to me.

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 unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when SDFC lent to Mr K required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So SDFC had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr K. In other words, it wasn't enough for SDFC to simply think about the likelihood of it getting its money back, it had to consider the impact of the account repayments on Mr K.

Checks also had to be proportionate to the specific circumstances of each credit application or limit increase. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for, or are being given.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application or limit increase – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. As catalogue shopping accounts are open-ended we also consider the length of time it would have taken to repay the credit provided, had a consumer used the full limit that was offered from the outset. I've kept all of this in mind when thinking about whether SDFC did what it needed to before agreeing to lend to Mr K. This means in reaching my conclusion I have considered the following questions:

- did SDFC complete reasonable and proportionate checks when assessing Mr K's account application and limit increase to satisfy itself that he would be able to repay the debt in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did SDFC make fair lending decisions?
- did SDFC act unfairly or unreasonably in some other way?

As SDFC has already agreed that it was wrong to increase Mr K's credit limit and it has put things right in line with the approach we would have instructed, I won't comment further on the April 2017 limit increase.

When Mr K opened his account in 2016 SDFC asked for information on his income (£23,000), his residential status (living with parents), his employment status (full time) and it checked his financial position using the data shown on his credit file. I have seen a summary of the results of the credit checks that SDFC received. I can't see there was a level of adverse information such that SDFC should have been concerned at this stage. The

information Mr K might see on his credit file might differ to that seen by the lender. A lender might only see a portion of the credit file, or some data might be missing or anonymised, or the data might not be up to date. This may explain any differences between the information seen by SDFC's credit check and the information Mr K might have seen on his credit file at the time.

But I do think it would have been proportionate for SDFC's checks to go further than they did. I say this because it's difficult to establish whether repayments are affordable without an understanding of both a consumer's income and regular expenditure. The regulations at the time (CONC 5.3.1(9)) required SDFC to consider the information it had on Mr K's disposable income when setting his credit limit and I can't see that SDFC asked about Mr K's expenditure. So it didn't have an understanding of his disposable income before it made its lending decision. I have therefore considered what better checks might have shown SDFC.

Mr K provided a copy of his full credit report but from that, and what it evidences of Mr K's financial circumstances at the time of his application, I can't fairly conclude that better checks would have led SDFC to make a different lending decision. It shows Mr K had no other credit cards or personal loans and whilst there was one account that had defaulted, that was in 2014 and I wouldn't have expected SDFC not to lend on that basis alone.

Overall, I don't think SDFC was wrong to initially approve Mr K's account application and provide him with an opening credit limit of £500.

Did SDFC act unfairly or unreasonably towards Mr K in some other way?

Here I have reached the same conclusion as the adjudicator and for the same reasons. Mr K complains the default was incorrect and unlawful. I haven't found any evidence this is the case. SDFC has told us it issued a default notice on 8 January 2018. I understand Mr K says he didn't receive this, but I can't fairly hold the business responsible for its non-receipt. It has Mr K's correct contact details. And it was entitled to sell on the debt in the way it did.

SDFC has confirmed it did not record any adverse information on Mr K's credit file in relation to this debt. This was done by the third party. They would be obliged to accurately reflect the status of the debt in their reporting. If Mr K feels this has been done incorrectly, or has other concerns about how the debt has been managed, he must first complain to the third party so they can investigate - they are not party to this complaint. He can of course bring a new complaint against them to this service if he is unhappy with the response.

My final decision

For the reasons set out above I am not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 18 May 2021.

Rebecca Connelley
Ombudsman