

## **The complaint**

Ms H, through a representative, says Shop Direct Finance Company Limited, trading as Very, irresponsibly lent to her.

## **What happened**

Ms H applied for a catalogue shopping account in September 2017. Shop Direct accepted her application and gave her an initial credit limit of £250.

Ms H says the credit was unaffordable for her and Shop Direct failed to properly assess her circumstances before lending.

Our investigator found that Shop Direct had lent irresponsibly to Ms H. She found Shop Direct's checks were not proportionate and better checks would have showed signs that the credit would most likely be unaffordable for Ms H.

Shop Direct disagreed with this assessment and asked for an ombudsman's review, so the complaint was passed to me.

It said its checks were proportionate. They showed Ms H most likely had the disposable income to afford this account as she had verified income of £24,501, no running credit, £311 per month of loan commitments and all accounts were up-to-date. It could not have foreseen that after opening this account Ms H would also increase her borrowing elsewhere.

## **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.

Shop Direct 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 consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website and I have followed it here.

Prior to providing credit to Ms H, Shop Direct carried out a credit check using a credit reference agency to determine the amount of credit it was able to offer, as well as asking about her income.

Shop Direct has told us there were no signs the credit was unaffordable based on the checks it carried out. It has shared the results of the checks it carried out and having reviewed them I don't think Shop Direct got the assurances it need that the credit offered would be sustainably affordable for Ms H before deciding to lend. I'll explain why.

From its credit check Shop Direct could see that whilst Ms H was currently up-to-date with her credit accounts she had recently opened four new accounts – this was her fifth in almost as many months - and she had a not insignificant level of unsecured debt at just under £13,000. This was already costing her £311 a month to service. I am not saying these facts

were a reason not to lend, but I think they ought to have led Shop Direct to carry out a fuller financial review before lending. Whilst Shop Direct asked about income I cannot see it did any checks into Ms H's overall costs, yet it made an assumption about her disposable income which I don't think was reasonable in the circumstances of this application.

Ms H has provided a full copy of her credit file. This is one way I can recreate what better checks would most likely have shown Shop Direct, bank statements would be another. The report shows Ms H had been persistently using short-term high-cost credit for over a year suggesting she was having problems managing her money, and was trapped in a cycle of high-cost borrowing. Had Shop Direct, as a responsible lender, completed better checks and been aware of this it would have realised any borrowing at this time was most likely to not be sustainably affordable for Ms H.

It follows I think Shop Direct was wrong to extend credit to Ms H.

### **Putting things right**

Ms H should pay the cash price for any goods she has kept. But I don't think Ms H should have to pay any interest or charges on credit that should not have been given to her, so Shop Direct should:

- Remove all interest and charges.
- Work out how much Ms H would have owed after the above adjustments. Any repayments Ms H made should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Ms H along with 8% simple interest\* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Ms H no longer owes any money, then all adverse information regarding this account should be removed from the credit file.
- Or, if an outstanding balance remains, Shop Direct should look to arrange an affordable payment plan with Ms H for the outstanding amount. Once Ms H has cleared the balance, any adverse information should be removed from the credit file.

If the debt was sold to a third party, Shop Direct must either repurchase the debt or liaise with the debt owner to ensure the above steps are undertaken

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

### **My final decision**

I am upholding Ms H's complaint. Shop Direct Finance Company Limited, trading as Very, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 26 July 2022.

Rebecca Connelley  
**Ombudsman**