

The complaint

Ms K says Shop Direct Finance Company Limited, trading as very, irresponsibly lent to her.

What happened

Ms K applied for a catalogue shopping account in April 2014. Shop Direct accepted her application and gave her an initial credit limit of £1,000. The credit limit was increased five times reaching £2,400 in August 2016. In December 2021 it was reduced to £1,010.

Ms K says Shop Direct increased her limit without making sure she could afford it. She didn't expect the fast increase in interest and fees. When she contacted Shop Direct to say she was struggling financially it refused to accept lower monthly payments.

Our investigator did not think Shop Direct had lent irresponsibly to Ms K. He found Shop Direct's checks did not show any signs that the credit would be unaffordable for Ms K.

Ms K disagreed with this assessment and asked for an ombudsman's review, so the complaint was passed to me. She said Shop Direct has damaged her financial situation and she also wants its refusal to reduce her repayments considering.

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 K, Shop Direct carried out a credit check using a credit agency to determine the amount of credit it was able to offer. And for the credit limit increases Shop Direct assessed the spending and payment activity on Ms K's account on a monthly basis. The credit limit increases were set using that information.

Shop Direct has told us there were no signs of financial difficulties based on the initial checks it did. It has shared the results of the checks it carried out and having reviewed them I don't think there is anything to suggest that it would have been reasonable for Shop Direct not

have to have approved Ms K's application. Shop Direct didn't ask about Ms K's income, and this may have helped it begin to build a picture of Ms K's financial circumstances. But even if it had, at this stage, I don't think it would have made a difference to its decision to extend the credit. I say this because the credit check showed Ms K had a relatively low level of total credit available to her (£4,760) and was up-to-date with all her repayments. She had no credit searches in the last 3 months, and only one in the previous 12 months suggesting she was financially stable and not having any problems managing her money. So I think it

was fair for Shop Direct to approve Ms K's application and offer her an opening limit of £1,000.

I have then considered the credit limit increases. Before increasing Ms K's limit Shop Direct each time reviewed how she was using her account. I have some concerns with this approach as it's not clear to me why a borrower who is able to successfully manage a given credit limit can then automatically be deemed, without further checks at the time of the decision, to be able to successfully manage a higher limit. It seems to me that this logic would likely lead to continually increasing limits, unless or until problems arise. I think that it would have been helpful for Shop Direct to have found out more about Ms K's financial situation on each occasion so that it could verify her income and committed expenditure. But I don't think from the information we have about Ms K's financial situation at the time that had Shop Direct carried out additional proportionate checks, it would have found these credit limit increases to be unsustainable.

I say this as Ms K sent us her full credit file, and this doesn't show signs of any financial difficulties or a reliance on credit at the times of the limit increases.

At the time of the each of these limit increases I can see that Ms K had in all but one month met her contractual repayments month, incurred no fees and her balance had been significantly under the limit every month since the account was opened. So I can to an extent see why this led Shop Direct to conclude that Ms K was managing the account well. And although I don't think that this, in itself, means that Shop Direct knew Ms K was in a position to sustainably repay an increased balance within a reasonable period, I find that the decision to increase Ms K's credit limit at these times wasn't unreasonable based on the available evidence. When Ms K made her complaint about irresponsible lending Shop Direct reduced Ms K's balance to £1,010, her balance was just under £1,000 at the time.

It follows I do not find Shop Direct was wrong to give Ms K the initial limit or subsequent increases.

I have then considered if Shop Direct treated Ms K unfairly or unreasonably in some other way. She referenced interest rate increases in her complaint. The terms of the account Ms K agreed to set out that the interest rate was variable. It increased from 39.7% to 47.9% on 2 May 2015 and then decreased to 46.9% on 17 September 2016. Shop Direct sent Ms K a notice of variation in her statement prior to the changes as required. So I haven't found any failings in that regard.

Ms K is also unhappy Shop Direct refused to let her make lower repayments when she fell into financial difficulties following a reduction in income. I can see from the lender's evidence she contacted it in November 2021 explaining she was having problems. She then completed an income and expenditure form but as this showed she had insufficient disposable income to make any repayments on her card Shop Direct recommended she instead contacted StepChange for assistance. It placed her account on hold for 30 days. So I don't think it refused to help, rather that it advised she should get support to look at her overall financial situation. I am not clear from the file if Ms K did this.

I am sorry Ms K found herself in this position but overall, for the reasons set out above I can't fairly find it was as a result of Shop Direct lending irresponsibly.

My final decision

I am not upholding Ms K's complaint.

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

reject my decision before 12 August 2022.

Rebecca Connelley
Ombudsman