

The complaint

Miss J says Shop Direct Finance Company Limited ("Shop Direct") irresponsibly lent to her.

What happened

This complaint is about three catalogue shopping accounts Shop Direct provided.

The first account opened in August 2014 with an opening balance of £600. There were 11 increases and the credit limit reached £3,500 in October 2016. The second account started in November 2014 with an opening balance of £400. The credit limit increased twice until it reached £800 in November 2015. The third account started in November 2014 with a limit of £500. This had one credit limit increase to £600 in September 2015. The changes to the credit limits was not always to make them larger. There were reductions in the credit limits too.

Our adjudicator partially upheld Miss J's complaint and thought that Shop Direct ought to have realised Miss J simply wasn't in a position to sustainably repay any further credit by the time it increased her credit limit on the first account to £3,500 in October 2016. Shop Direct agreed with our adjudicator and so did Miss J initially. As a result, Shop Direct calculated redress and made a payment to the third-party debt collection agency it had passed the account to in 2019. Subsequently, Miss J became dissatisfied with this outcome and the resulting calculation of redress and she asked for the matter to be reviewed. So, the complaint has passed to me for a decision.

It is not the purpose of this decision to assess whether Shop Direct has correctly calculated the redress it has already paid. But as an offer has been made on the case, this decision will assess whether the offer is fair in principle. In this case that means I must consider whether the complaint should have been upheld earlier in the life of Miss J's accounts; i.e. is Miss J entitled to an earlier date to be used in the calculation of redress.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website.

Shop Direct needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss J could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in

mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Shop Direct should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Our adjudicator set out in some detail why he thought Shop Direct shouldn't have provided Miss J with any further credit from after the credit increase in September 2016. In brief, Miss J had a history of increasing her balance when the credit limit was increased. And when the balances on the accounts grew, Miss J was unable to make much progress in reducing the balance when it had grown. So, our adjudicator felt a time had been reached in September 2016, when there was a significant risk that increasing Miss J's credit limit in these circumstances would lead to her indebtedness increasing to a level she couldn't afford to repay.

I think that Miss J lost out because Shop Direct provided her with further credit after September 2016. In my view, Shop Direct's actions unfairly prolonged Miss J's indebtedness by allowing her to use credit she couldn't afford over an extended period of time and the interest being added got her into further debt. So, Shop Direct was asked to put things right. Shop Direct agreed to this and they have already calculated redress accordingly and made payment to the third-party debt recovery agency that now have the account.

But should the complaint be upheld from an earlier time in the life of the accounts? Having reviewed all the submissions made in this case, I don't think so. I will explain why.

Miss J's complaint is that Shop Direct made credit available that was unaffordable. It is not straightforward trying to determine affordability because Miss J has not been able to provide any bank statements from the times in question. Shop Direct has explained that it carried out a credit check using a credit agency to determine the amount of credit it was able to offer, and considered the credit file and Miss J's management of the account with regard to credit limit increases and decreases. It's possible that Shop Direct failed to make adequate checks before providing Miss J with credit. But even if that's true, I don't think better enquiries would have caused Shop Direct to think the initial credit limits and the subsequent credit limit increases were unaffordable.

I say this because the initial credit limit and early credit increases were modest and the maximum monthly payments would have been relatively modest. And even when the credit limits were not modest, Miss J's management of these accounts was generally very good until sometime after the last credit increase in 2016.

So, having considered all the submissions made in this case, and in the absence of any extra evidence from Miss J to the contrary, I have seen insufficient evidence to think that more thorough affordability checks would have led Shop Direct to think that the credit it provided Miss J was unreasonable. Further, I'm not persuaded that the way Miss J was managing her account or what Shop Direct could see of her management of other credit ought to have prompted it to have acted differently than it did.

I know that Miss J will be disappointed with my decision. But I want Miss J to know that I considered all the submissions made in this case. Having done so, I have not found sufficient evidence to award any further redress than has already been suggested by our adjudicator and agreed to by Shop Direct.

Because the redress has been discussed post assessment, I include a description of how the redress for this case was to be calculated.

Putting things right

- Rework Miss J's accounts to ensure that from October 2017 onwards interest is only charged on balances up to the total credit limit of £3,900 across the accounts, including any buy now pay later interest, (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the accounts once these adjustments have been made Shop Direct should contact Miss J to arrange an affordable repayment plan for these accounts. Once Miss J has repaid the outstanding balance, it should remove any adverse information recorded on Miss J's credit file from after September 2016 onwards for each account.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss J, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Shop Direct should also remove any adverse information from Miss J's credit file from October 2016 onwards.†

†HM Revenue & Customs requires Shop Direct to take off tax from this interest. Shop Direct must give Miss J a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons set out, I'm partially upholding Miss J's complaint. Shop Direct Finance Company Limited has already agreed to calculate that redress and has made a payment to the third-party debt agency as a consequence. So, I make no further award against Shop Direct Finance Company Limited in this case.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 31 August 2022.

Douglas Sayers
Ombudsman