

The complaint

Miss C complains that Shop Direct Finance Company, ("Shop Direct"), lent to her irresponsibly.

What happened

in June 2007 with an initial credit limit of £200. The second was opened in December 2009 with an initial credit limit of £1,000.

The credit limit on each account was increased over time. The first account was increased gradually until in September 2016 the limit was £3,700. The limit was decreased in November 2018 and June 2019, ending up at £2,400. Eventually Miss C defaulted on this account in August 2019 and the account was sold to a third-party debt collection agency in January 2020.

The second account credit limit was also increased several times until in January 2014 it was £3,800. It was later decreased to £1,300 before being increased to £2,300 in May 2018. Miss C says that Shop Direct shouldn't have provided her with the credit. She says it didn't take account of her financial situation at the time and that it should have refused her credit. She says Shop Direct didn't check it was affordable for her and that she has struggled with debt ever since.

Shop Direct agreed that it shouldn't have increased Miss C's credit limit on the second account in May 2018 and it paid compensation to Miss C as a result.

Miss C considered that Shop Direct should have done more. She says it was clear that she was having difficulty repaying her credit long before May 2018.

Our adjudicator didn't uphold Miss C's complaint. They didn't think Shop Direct had done anything wrong in its lending decisions before May 2018.

Ms C disagreed. She told the adjudicator that she had taken out a large amount of credit with third parties during the course of her credit agreements with Shop Direct and that if Shop Direct had conducted proper checks at each point where it increased her credit limit, Shop Direct would have seen that her debt was not manageable. Miss C says if Shop Direct had done proper checks it would have seen that she was only working 12 hours a week and could not sustain her repayments. Miss C says that between September 2012 and July 2015 she made multiple late payments until she finally contacted Shop Direct to set up a payment plan.

Miss C provided a copy of a credit agreement in relation to the purchase of a vehicle in March 2015 to support her assertion that if Shop Direct had completed proper checks it would have recognised that she was over-indebted.

As Miss C did not agree the complaint was passed to me to make a decision.

I agreed with Miss C and issued a provisional decision to all parties explaining that I

intended to uphold her complaint from the point of the credit limit increase in May 2018. I invited parties to make comments by 28 June 2022 on my provisional decision. Miss C confirmed she had no comment to make and Shop Direct did not respond. I therefore see no reason to change my findings which are set out below.

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 and I've taken that into account when I considered Miss C's complaint.

Having done so, I came to a different conclusion to our adjudicator. I don't think Shop Direct acted unfairly and lent to Miss C irresponsibly in the early stages of her credit agreements, but I think it acted unfairly later on when Miss C got into financial difficulty. I'll explain why I've reached this conclusion.

Shop Direct needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss C 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 amount, Miss C's borrowing history and her income and expenditure.

Shop Direct doesn't have a record of the checks it completed when Miss C opened her first account in 2007. I don't think this is unreasonable given the time that has passed since then. The original limit was only £200 and I haven't seen anything to suggest that this limit was unaffordable for Miss C at the time.

Shop Direct has provided a list of the checks it completed when opening Miss C's second account in 2009. It says these show that it was reasonable to lend to Miss C in the way that it did.

I can see from this list that Shop Direct saw that Miss C was up to date with all her existing credit and that she not been in arrears with any credit line in the preceding 24 months. The overall credit available to her was relatively low at £1,650. Miss C was provided with a relatively large initial credit limit on this account of £1,000 but, again, I haven't seen anything to suggest this was not affordable for Miss C. It appears that other than her initial purchase on the first account, which she paid off in full in March 2008, she hadn't used any credit on her first Shop Direct account by the time she opened the second.

Miss C managed her accounts well for a number of years. Each account had its credit limit increased a number of times, but Miss C rarely missed payments and when she did she made them up quickly.

However, in May 2018, Shop Direct increased Miss C's limit by £1,000 to £2,300. It did this when she had not paid the minimum repayment for three months and had incurred administration charges each time. Shop Direct agreed before Miss C brought her complaint to this service that it shouldn't have done that and it refunded the interest and charges she paid as a result after that. I think that was the right thing to do.

However, I think it should have gone further. I think Shop Direct should have looked holistically at how Miss C was managing both accounts she had. At the time of the May 2018 increase on her second account Miss C had already failed to meet her minimum repayments

on her first account for four months in a row. And she had been in arrears for one month in the three months before the May 2018 increase. While she managed to maintain her repayments between April 2018 and August 2018 she then fell into permanent arrears on her first account in September 2018. Shop Direct appears to have frozen the interest and charges from February 2019.

I think Shop Direct should have done this sooner. I think it should have noted and acted on the fact Miss C had missed the minimum repayments on her second account in the three months leading up to May 2018. Shop Direct accepts it shouldn't have increased her credit limit in May 2018 and Miss C slipped into arrears on that second account in September 2018 too. The combination of the increase in her credit limit on the second account, which enabled her to spend more, which Shop Direct acknowledges was wrong, and the way she was managing her first account around the same time, satisfies me that by May 2018 Shop Direct should have known that Miss C was experiencing financial difficulties.

I don't know what checks Shop Direct did each month as it hasn't supplied evidence of them. But Miss C has provided evidence to show that she had a large amount of credit elsewhere. I think if Shop Direct had completed credit reference checks each month it would have realised Miss C was over-indebted and would have problems making her repayments.

On balance, I think Miss C lost out as a result of what Shop Direct did wrong.

Putting things right

As I uphold this complaint in part, I think to put things right it is fair and reasonable for Shop Direct to refund any interest and charges incurred by Miss C on her first account since May 2018. This is because I think Shop Direct should have frozen Miss C's accounts in May 2018. To reflect this Shop Direct should:

- remove all charges and interest (including BNPL interest) incurred on the account since May 2018.
- Work out how much Miss C would have owed after the above adjustments. Any repayment Miss C made since May 2018 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Miss C along with 8% simple interest* calculated from the date of overpayment to the date of settlement.
- If after all the adjustments have been made Miss C no longer owes any money then all adverse information regarding this account should be removed from the credit file from May 2018.
- Or, if an outstanding balance remains, Shop Direct should look to arrange an affordable payment plan with Miss C for the outstanding amount. As the debt was sold to a third party, Shop Direct must either repurchase the debt or liaise with the third party to ensure the above steps are undertaken. Once Miss C has cleared the balance, any adverse information should be removed from the credit file

*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest. It must give Miss C a certificate showing how much tax has been taken off if she asks for one.

My final decision

For the reasons I have set out above I partially uphold Miss C's complaint and direct Shop Direct to pay redress as outlined above.

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

or reject my decision before 29 July 2022.

Sally Allbeury
Ombudsman