

The complaint

Ms C complains that Shop Direct Finance Company Limited (“SD”), trading as very, provided her with credit she couldn’t afford to repay.

What happened

Ms C was approved for a mail order account in June 2016 and in November 2016 that was converted into a credit account with a £500 credit limit. The limit was increased to £1,000 in July 2017 and again to £1,300 in October 2017. When Ms C fell into arrears on the account SD started to reduce her credit limit from April 2019 and, when payments weren’t kept up to date, they reassigned the debt to a collection company in June 2019.

Ms C says the credit wasn’t affordable for her.

SD disagree. They say that they considered Ms C’s credit file at the point of application and didn’t find anything that would suggest she couldn’t afford to sustainably repay the credit they were providing. They said her subsequent performance on the account was good and they noted her performance on other credit accounts reported to them by the credit reference agencies was good too. So, they saw no reason not to provide the increased limits.

Our investigator agreed that the credit had been responsibly lent but Ms C didn’t. The complaint has therefore been referred to me, an ombudsman, for a final decision.

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 considering complaints about unaffordable and irresponsible lending is set out on our website. I’ve had this approach in mind when considering what’s fair and reasonable in the circumstances of this complaint.

I don’t think SD have been able to demonstrate that they completed reasonable and proportionate checks before approving the initial credit limit of £500. They’ve suggested they reviewed Ms C’s credit file but the information they have provided is from credit reports that post-date their decision to lend. The files suggest the credit files were received in 2017 but the credit limit was approved in November 2016. So, I don’t think there’s evidence they considered Ms C’s performance on other credit commitments or her expenditure in sufficient detail.

I think it would have been proportionate for SD to have found out more about Ms C’s committed expenditure, such as her actual living costs. I can’t be sure exactly what they would have found out if they had explored further. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Ms C’s bank statements as to what would most likely have been disclosed.

I've reviewed bank statements from the account I think it's likely SD would have reviewed; the one Ms C's salary was paid into.

They show that Ms C was receiving a net income of about £1,030 per month, she was paying about £175 every month towards revolving credit arrangements and about £235 per month towards other living costs such as food, petrol, clothes, and communications. Ms C had told SD that she was living with her parents at the time of her application and there were no housing costs that would have been apparent. I think the bank statements showed that Ms C had enough disposable income to afford to repay the relatively modest £500 credit limit SD were providing.

I've also taken a look at the credit file Ms C provided to see if there were any signs of financial distress at the time of her application. The credit file doesn't provide a comprehensive record of each of the accounts but from what I can see it seems that at the time SD approved the credit for Ms C she had about £5,100 of outstanding credit commitments. There was no information to suggest she wasn't keeping up with payments or had defaulted any of her accounts and I don't think at the time of application that there was evidence Ms C was in financial difficulty. I don't think there was therefore information available to SD that would have suggested it was irresponsible to provide the £500 credit limit and I don't therefore think they were wrong to lend the money.

My final decision

For the reasons I've given above I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 20 October 2022.

Phillip McMahon
Ombudsman