

The complaint

Ms H has complained that Shop Direct Finance Company Limited, trading as very, (“Shop Direct”), was irresponsible when it provided her with a credit limit of £600 on her catalogue shopping account and when it then increased the credit limit twice. She is also unhappy that Shop Direct blocked her account when she made her complaint.

What happened

Shop Direct opened a credit account for Ms H in November 2020 with a credit limit of £600. This type of credit was an open-ended or running account which Ms H used to pay for goods bought from Shop Direct’s catalogue. Shop Direct then increased the credit limit to £1,000 in February 2021 and to £1,500 in May 2021.

Ms H says that she had only made minimum payments on the account and then used the increased limits to spend more than she could afford. This should have shown Shop Direct that she couldn’t repay her balance within a reasonable length of time, so it shouldn’t have let her borrow more. If Shop Direct had properly checked her credit record before increasing her limit, it would have seen that she had a number of accounts that she had opened including loans and credit cards. Her disposable income wasn’t enough to cover those payments let alone the payments for Shop Direct’s credit account. She was struggling with her finances and it wasn’t responsible to lend her more. By increasing Ms H’s credit limit, Shop Direct made her financial position worse.

In its final response letter, Shop Direct said that in addition to the information Ms H provided at application, it obtained data about her via a credit reference agency (“CRA”) which supported its decision to accept her application. It was satisfied that proportionate checks would have been completed at the time of her application. At the point of each credit limit increase, an assessment of Ms H’s account was undertaken. It conducted appropriate and proportionate checks that considered the information provided at application as well as external credit data. Shop Direct was satisfied the credit provided to Ms H at the time of application and during the lifetime of the account was appropriate.

Our investigator’s view

The investigator didn’t recommend that the complaint should be upheld. In view of what was apparent to Shop Direct about Ms H’s circumstances at the time, she didn’t think Shop Direct was wrong to offer Ms H a £600 credit limit. With regard to the credit limit increases, she didn’t think Ms H’s use of the account and the period she’d held a balance with Shop Direct should’ve shown the lender that Ms H might’ve been experiencing underlying financial difficulty. So, she didn’t think Shop Direct had acted inappropriately when it increased the credit limit. The investigator also didn’t think it was unreasonable for Shop Direct to block Ms H from using the account.

Ms H disagreed. She said that she was now in a debt management plan to take back control of her finances and the remaining balance of Shop Direct’s account had doubled due to interest charges. She struggled to make the minimum payments throughout the duration of her account.

As this complaint hadn't been resolved informally, it was passed to me, as an ombudsman, to review and resolve.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Ms H and to Shop Direct on 22 August 2022. I summarise my findings:

I'd noted that when Shop Direct lent to Ms H, the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook. Its rules and guidance obliged Shop Direct to lend responsibly.

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 didn't consider it necessary to set all of this out in my decision.

Shop Direct needed to consider Ms H's ability to make her repayments over the life of the credit agreement within a reasonable period without Ms H having to borrow to meet the repayments, without her failing to make any other payments she had a contractual or statutory duty to make, and without the repayments having a significant adverse impact on her financial situation.

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 Ms H. These factors included:

- Ms H's income, reflecting that it could be more difficult to make any credit repayments from a lower level of income.
- 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 frequency of borrowing and the length of time Ms H had been indebted, reflecting the risk that prolonged indebtedness might signal that the borrowing had become, or was becoming unsustainable.

I'd not seen any information about Ms H's income and living costs in Shop Direct's business file. So, I'd asked the investigator to ask Shop Direct for the information Ms H supplied about her income and employment and whether it estimated her disposable income at the time of the application and what steps it took to estimate expenditure.

Shop Direct said that Ms H had told it that she was employed full time with a verified annual income of £30,501 and with a household income of £50,001. She lived in rented accommodation. It had used its internal model to provide the following monthly information for Ms H:-

Net income: £2,045
Estimated housing costs: £397
Estimated living costs: £901
Credit commitments: £61
Discretionary income: £686

I'd noted that Shop Direct had carried out a credit check before lending which I'd reviewed. It showed that Ms H had five unsecured loans, one secured loan, a total loans balance of £1,909 and a £7,000 credit limit. There was also reference to a defaulted account and a county court judgement ("CCJ") but as the check showed that there had been no arrears for

24 months, it appeared that the default and CCJ had occurred at least two years prior to Ms H's application to Shop Direct. I could understand that Shop Direct would be more interested in Ms H's more recent credit history.

I'd noted that Shop Direct had told this Service that Ms H's credit commitments were £61. But as its credit check referred to her having six loans, with a loans balance totalling £1,909 and a £7,000 credit limit, I thought it might have reasonably thought that Ms H's monthly credit commitments might have been somewhat higher than £61. The credit check also didn't show how much of her £7,000 credit limit Ms H was using. So, I didn't think it was reasonable for Shop Direct to rely on its estimated discretionary income of £686 to assess whether Ms H would be able to repay the money she'd borrowed within a reasonable period of time. And I thought it might have been reasonable and proportionate for Shop Direct to gather some more information from Ms H about her actual credit commitments.

However, concluding that Shop Direct ought to have done more before lending to Ms H didn't automatically mean her complaint should succeed. So, I'd considered what information a reasonable and proportionate check would likely have produced.

I'd reviewed Ms H's own credit report and bank statements from around the time of her application that she had provided to this Service. To be clear, I wasn't suggesting Shop Direct ought to have done this, but these gave me some understanding of Ms H's credit commitments at the time of her application.

I'd noted from Ms H's credit report that in October 2020 she had monthly loan commitments of around £507 on four loans as well as repayments on her credit cards and running account of at least £430. It appears that she missed a repayment on one of her credit cards in October 2020. Her total credit card and running account balance was around £5,805. Ms H was near to her credit limit on three of her credit cards.

So, I thought if Shop Direct had made better checks, it was likely to have seen that Ms H's monthly credit commitments were significantly higher than it had calculated and were also higher than the monthly discretionary income it had calculated. I thought this should have prompted it to make further checks into Ms H's actual income and regular expenditure.

I could see from Ms H's bank statements that if Shop Direct had enquired further into Ms H's financial situation, it would have learned that the total of Ms H's monthly regular living costs and credit commitments was higher than her monthly net income (at around £1,540 it was significantly less than the income Shop Direct used for its calculations). It followed that I thought Shop Direct was wrong to extend credit to Ms H.

And as I'd found that Shop Direct shouldn't have opened an account for Ms H, it logically followed that I didn't think it should have gone on to offer her either of the credit limit increases.

So, for the reasons given above, but subject to any further information or evidence I might receive from the parties, I intended to uphold this aspect of Ms H's complaint and say that Shop Direct should put things right as I've set out below under the heading "Putting things right – what Shop Direct needs to do".

Putting things right – what Shop Direct needs to do

Ms H should pay the cash price for any goods she has kept but she shouldn't have to pay any interest or charges on credit that shouldn't have been given to her. So, Shop Direct should:

- Rework Ms H's account to ensure that all interest and charges are removed; and
- Apply Ms H's repayments to this adjusted balance;
- If the effect of this reworking results in there no longer being an outstanding balance to pay, then any remaining amounts paid by Ms H should be treated as overpayments and returned to her along with 8% simple interest* on the overpayments from the date they were made until the date of settlement. In this case Shop Direct should remove any adverse information about the account from Ms H's credit file;
- If an outstanding balance remains on the account once these adjustments have been made, Shop Direct needs to ensure that Ms H is only liable for this adjusted balance. Shop Direct should look to arrange an affordable payment plan with Ms H for the outstanding amount. In this case, once Ms H has cleared the balance, any adverse information should be removed from the credit file;
- If the debt has been sold, Shop Direct should either repurchase it or liaise with the current debt owner to ensure the above steps are taken.

* HM Revenue & Customs requires Shop Direct to take off tax from this interest. Shop Direct must give Ms H a certificate showing how much tax it has taken off if she asks for one.

Complaint about Shop Direct blocking Ms H's account

Ms H had also complained that Shop Direct blocked her from using the account after she'd raised a complaint about irresponsible lending. I didn't think it was unreasonable for Shop Direct to block Ms H from using the account. Ms H told Shop Direct in her complaint that she couldn't afford her existing debt and she was having to borrow more every month. Things got so bad that she had set up a Debt Management Plan to help pay back all her accounts. In these circumstances, I thought it was appropriate for Shop Direct to restrict Ms H's use of the account so that it didn't increase her indebtedness. So, I didn't propose to uphold this aspect of Ms H's complaint.

Both Ms H and Shop Direct responded to my provisional decision to say that they agreed with it.

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.

I have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

Given that Ms H and Shop Direct agreed with my provisional decision and have given me nothing further to consider, I see no reason to depart from the conclusions I reached in my provisional decision. It follows that I uphold this complaint in part and require Shop Direct to take the steps set out above under the heading "Putting things right - what Shop Direct needs to do".

My final decision

My decision is that I uphold Ms H's complaint in part. In full and final settlement of this complaint, I order Shop Direct Finance Company Limited, trading as very, to take the steps set out above under the heading "Putting things right – what Shop Direct needs to do".

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 14 October 2022.

Roslyn Rawson

Ombudsman