

## **The complaint**

Mrs S complains that Shop Direct Finance Company Limited irresponsibly provided her with, and increased the credit limit on, a mail order account so she couldn't afford the repayments.

## **What happened**

Shop Direct provided Mrs S with a credit account in November 2017. The initial credit limit was £400. The limit increased in stages as follows:

30/6/2018	£500
22/9/2018	£675
15/12/2018	£800
12/1/2019	£1,050
6/4/2019	£1,450

The limit was reduced to £1,250 in June 2019 and thereafter wasn't increased. Mrs S fell into serious arrears with payments after that and I understand was making payments under a payment arrangement until December 2021. She complained that the credit was irresponsibly provided to her and the limit increased whilst she was only receiving a state pension.

Shop Direct said that it conducted appropriate and proportionate checks that considered the information provided at application as well as external credit data. It was satisfied the credit provided to Mrs S at the time of application and during the lifetime of the account was appropriate.

On referral to the Financial Ombudsman Service our adjudicator said that because Mrs S missed or underpaid on the account before the first limit increase, that Shop Direct should have carried out further checks. Having reviewed Mrs S's bank statements our adjudicator said that Mrs S didn't have sufficient disposable income to afford the credit after the first increase.

Shop Direct disagreed, pointing out that Mrs S updated her income several times and each time this was verified by the credit reference agency. It also said Mrs S had multiple bank accounts.

The matter has been passed to me for further consideration.

## **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.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Shop Direct complete reasonable and proportionate checks to satisfy itself that Mrs S would be able to repay the credit advanced in a sustainable way?
- If not, would those checks have shown that Mrs S would have been able to do so?
- Bearing in mind the circumstances at the time of each application, was there a point where Shop Direct ought reasonably to have realised it was increasing Mrs S's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?

I have seen Shop Direct's data from the time of the application, although that is limited to an overall summary of Mrs S's accounts, and the history of this account, including the spending and the increases in the credit limit. But apart from that I don't have information about any income and expenditure checks. And although Shop Direct says it checked Mrs S's credit record at the time of each credit limit increase, I haven't seen evidence of those checks.

Mrs S has shown us her bank statements from the time but I've not seen any other evidence of her credit position. She has explained that the "other" accounts she has are an ISA which she can't afford to deposit money into, and a "*save the change*" account which she transfers back into her main account.

At the time of providing the credit account in November 2017 Shop Direct established that Mrs S had one account that was in default but she didn't appear to be in arrears on any other accounts. Bearing in mind the small amount of credit provided at that stage, I am inclined to say that Shop Direct's checks were proportionate and that it was reasonable to provide the account with that initial credit.

In December 2017 Mrs S missed a payment, then in January 2018 paid about £20 less than the minimum due. Then in April 2018 she missed a further payment. Yet still Shop Direct said that the account was well maintained. The credit limit was raised by £100 in June 2018, although Mrs S immediately fell short in the monthly payment by £10. But the limit was increased again in September 2018. Her payment fell short again in November 2018, although Shop Direct saw fit to increase the limit again in December 2018. But Mrs S's payment that month was short by over £43. She was short on two further payments, in January 2019 and February 2019 after which the limit was again increased in April 2019. It was only after she fell short on the May 2019 payment and missed the June 2019 payment that Shop Direct decided to decrease the limit.

I would say that missing a payment early on and then failing to make the minimum payments were fairly clear indicators that Mrs S was struggling to make the payments. Whilst she did bring the account up to date, it's clear from her bank statements she was borrowing money from relatives to keep up her payments. I think at the very least Shop Direct should have carried out further checks, including a review of Mrs S's income and expenditure. This might have included looking at her bank account. And as I've said this showed that she was only managing to keep in credit because of payments from relatives.

I think, because of Mrs S's failure to meet the whole minimum payment on occasions and missing two payments at the outset and the likely information Shop Direct would have obtained had it checked her income and expenditure further that it shouldn't have increased the limit on the card beyond the initial limit. I think it likely that the payments for the card were unsustainable.

## **Putting things right**

As I don't think Shop Direct should have increased Mrs S's credit limit above £400, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mrs S has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore, Shop Direct should take the following actions:

Rework the account removing all interest and charges that have been applied to balances above £400.

If the rework results in a credit balance, this should be refunded to Mrs S along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Shop Direct should also remove all adverse information recorded after 30 June 2018 regarding this account from Mrs S's credit file.

Or, if after the rework the outstanding balance still exceeds £400, Shop Direct should arrange an affordable repayment plan with Mrs S for the remaining amount. Once Mrs S has cleared the outstanding balance, any adverse information recorded after 30 June 2018 in relation to the account should be removed from her credit file.

\*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest. It must give Mrs S a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

## **My final decision**

I uphold the complaint and require Shop Direct Finance Company Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 10 January 2023.

Ray Lawley  
**Ombudsman**