

The complaint

Miss J has complained, in summary, that Shop Direct Finance Company Limited, ("Shop Direct"), ("Shop Direct"), lent to her irresponsibly. She said the lending was unaffordable for her.

What happened

Shop Direct opened a credit account for Miss J in December 2017 with a credit limit of £400. This type of credit was an open-ended or running account which Miss J used to pay for goods bought from Shop Direct's catalogue. Shop Direct then increased Miss J's credit limit as follows:-

	Date	Credit limit
Account opening	9/12/2017	£400
First increase	9/2/2019	£900
Second increase	24/8/2019	£1,200
Third increase	4/4/2020	£1,700

Miss J says that Shop Direct would have seen from her credit record that she had recently missed or made late payments. Shop Direct didn't ask her about her expenses in enough detail to stop her from falling into further debt, which is causing her extreme depression and anxiety. When Shop Direct increased the credit limit, it didn't ask Miss J if her circumstances had changed and it ignored the fact that her income had decreased, and she was using a lot of credit but only making minimum payments. At the time of the credit limit increases, she had over £10,000 worth of debt which was increasing and her payments for essential bills such as electric, gas, and rent were all in arrears. She had to take numerous payment holidays and miss payments on this agreement as well as on other credit to pay Shop Direct back. She became very reliant on credit.

In its final response letter, Shop Direct said that it had conducted appropriate and proportionate checks that considered the information provided at application as well as external credit data. It was satisfied that the credit provided to Miss J at the time of application and during the lifetime of the account was appropriate. It conducted a creditworthiness assessment on application to establish Miss J's ability to repay. A search was carried out with a credit reference agency ("CRA") to gain an overall view of her financial situation. Thereafter, every month, Shop Direct received updated credit information about Miss J from a CRA, which it used, together with its internal records, to manage Miss J's account.

Shop Direct said that Miss J managed her account well. At the point of each periodic credit limit increase, she demonstrated an ability to make regular payments, sometimes in excess of the minimum payment and the external data it received also revealed she was maintaining payments to other lenders.

Our adjudicator's view

The adjudicator didn't recommend that the complaint should be upheld.

Miss J disagreed and provided more information about her outstanding credit at the time of her application and subsequent credit limit increases.

The adjudicator reviewed the information, but he didn't think it made a difference to Miss J's case. He appreciated that her credit file had a number of credit commitments including a high balance. But he didn't think it was enough to say that Shop Direct shouldn't have increased her credit limit. He thought the management of her account wouldn't have indicated she was struggling and from what her credit file showed, he didn't think Shop Direct should've acted any differently.

Miss J disagreed and asked for an ombudsman to review her complaint.

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 Miss J and to Shop Direct on 29 September 2022. I summarise my findings:

I said that Shop Direct would be familiar with all the rules, regulations and good industry practice we considered 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 and said that information about our approach to these complaints was set out on our website.

Shop Direct needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this meant 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, Miss J's lending history and her income and expenditure.

Account opening

As I'd not seen any information about Miss J's income and living costs at account opening in Shop Direct's business file, I'd asked the adjudicator to ask Shop Direct to supply all the information provided by Miss J relating to her income and employment. In relation to Miss J's disposable income, I'd asked the adjudicator to ask Shop Direct whether it estimated her disposable income. And if so, what was the estimated disposable income and what steps did Shop Direct take to estimate expenditure.

I'd noted that Shop Direct had told this Service in response that Miss J was living with her parents, she was employed full time and had no dependents. Her gross salary was £15,001 and the household income was £33,001. It said Miss J's net monthly income was £1,183 and it estimated her housing costs as £118 and her living costs as £283. Shop Direct said that her credit commitments were £149, and she was left with £633 each month.

Shop Direct had provided us with information about its credit file checks when Miss J applied for her account. The credit checks carried out by Shop Direct appeared to provide it with no concerns.

Miss J had provided us with excerpts from her credit report and I could see from this that she had one credit card at the time of her application to Shop Direct.

Altogether I thought Shop Direct had carried out proportionate checks here. Having looked at the outcome of those checks and enquiries I thought Shop Direct had made a fair lending decision on account opening and that the credit limit of £400 was likely to be sustainable for Miss J.

Credit limit increases

9 February 2019

I'd considered Miss J's repayment history from the account data supplied by Shop Direct. I could see that she had made minimum or Take 3 repayments to her account for 11 of the 14 months before the credit limit increase, and she'd made just minimum or Take 3 repayments for the five months before the credit limit increase. Notwithstanding this, Shop Direct had increased the credit limit to more than double the original credit limit. I also couldn't see that Miss J's use of the account (the balance was under £300 for the five months before the increase) justified such a large jump in the credit limit.

I thought Shop Direct ought to have been concerned that Miss J was only able to make minimum or Take 3 repayments for 11 out of 14 months which might have suggested that her finances were under pressure.

I'd reviewed Shop Direct's checks. I could see that Miss J's income and living arrangements hadn't changed. But I could see from Shop Direct's credit checks that Miss J's total credit had significantly increased. She had five credit cards with a total balance of £1,270. She had nine live credit accounts and three accounts had been opened in the six months prior to the credit limit increase. The total loans balance was almost £20,000. The checks showed Miss J's monthly repayments as £395. I thought Shop Direct ought to have been concerned about Miss J's relatively recent need for credit especially bearing in mind her living arrangements.

So, I thought that by February 2019, Shop Direct ought to have carried out proportionate checks that included verifying Miss J's monthly income and living costs.

However, concluding that Shop Direct ought to have done more before lending to Miss J didn't automatically mean her complaint should succeed. I also needed to be persuaded that what I considered to be proportionate checks would have suggested to Shop Direct that Miss J could meet her repayments without having to borrow to meet the repayments, without 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. So, I'd asked the adjudicator to obtain Miss J's bank statements from around the time of the credit limit increase. I'd looked at Miss J's bank statements to see what better checks would have shown the lender. I wasn't suggesting Shop Direct ought to have done this, but these gave me some understanding of Miss J's living costs and how she was managing her money.

Miss J's bank statements showed that her monthly net income was around £1,216. But her monthly credit commitments of around £650 were significantly higher than shown in Shop Direct's credit checks. I'd also noted that her identifiable living costs were around £280. I could see that Miss J had borrowed two short term loans totalling £140 in January 2019 to supplement her income and she'd also appeared to be receiving money from family. It wasn't clear to me whether Miss J still lived with her family. So, I'd asked the adjudicator to ask Miss J for more information about this. Miss J said that she was still living with her parents at the time of the February 2019 credit limit increase. She had no dependents.

Looking at everything in the round, I hadn't seen enough to find that Shop Direct shouldn't have increased Miss J's credit limit in February 2019.

24 August 2019

The second credit limit increase was around six months after the first increase and was three times the original credit limit. I'd noted that Miss J had only made the monthly minimum payment or the Take 3 payment since the first credit limit increase and her total balance was the highest it had been since account opening. And at no time had Miss J been successful in repaying all that she owed. I thought that all this should have been of increasing concern to Shop Direct. Her account balance was building up and overall, she wasn't making inroads into the increasing amount she owed Shop Direct.

I'd reviewed Shop Direct's checks. I could see its records said that Miss J was employed full time and that Miss J's income and living arrangements hadn't changed and that she had no dependents. Shop Direct told us that consumers weren't required to update this information for each credit limit increase unless they had asked for an increase.

I could see from Shop Direct's credit checks that she still had five credit cards with an increased total balance of £1,633. She had ten live credit accounts.

I again thought that Shop Direct ought to have carried out proportionate checks that included verifying Miss J's monthly income and living costs.

I'd again looked at Miss J's bank statements from around the time of the second credit limit increase to see what better checks would have shown the lender. I could see that Miss J was now receiving a reduced income of around £643 together with benefit income. Her total monthly income was around £1,020. I could also see from the statements that Miss J's income only appeared to exceed her identifiable regular expenditure and credit commitments by around £30. More worryingly, I could see that Miss J had borrowed high cost loans totalling £400 in July 2019 and totalling £1,800 in August 2019. She was also borrowing from family. Her current account had exceeded its overdraft limit at times, and she had payments returned. I'd asked the adjudicator to ask Miss J why she was needing to borrow credit. Miss J had explained that whilst she was still living with her parents, she now had a dependent and she needed the credit for bills, food shopping and essentials for her dependent. Overall, I thought it was more likely than not that Shop Direct would have learned or reasonably ought to have suspected through proportionate checks that Miss J was having problems managing her money. It followed that I thought that Miss J had lost out because Shop Direct increased her credit limit from August 2019.

4 April 2020

By the time of the third credit limit increase, Miss J had missed a monthly payment in November 2019, and she was otherwise continuing to make only the monthly minimum payment or a Take 3 payment. Her account balance had substantially increased, and she wasn't making inroads into the increasing amount she owed Shop Direct. I thought the lender should have had concerns about this.

Shop Direct's credit checks showed that Miss J now had six credit cards and her total balance had increased to £2,490.

I again thought that Shop Direct ought to have carried out proportionate checks that included verifying Miss J's monthly income and living costs.

I'd again looked at Miss J's bank statements from around the time of the third credit limit increase to see what better checks would have shown the lender. Miss J told this Service that she had moved into her own property in the autumn of 2019. I could see from the bank

statements that Miss J's overall financial situation hadn't improved. And she was now paying property bills and still borrowing short term credit. It followed that I thought that Miss J had lost out because Shop Direct had increased her credit limit from April 2020.

So, subject to any further representations by Miss J or Shop Direct, I intended to say that if Shop Direct had made better checks, it was likely to have found that Miss J's circumstances at the times of the credit limit increases in August 2019 and April 2020 suggested that Miss J wasn't likely to be able to meet her repayments without having to borrow to meet the repayments, without 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. So, I wasn't persuaded that Shop Direct had acted responsibly at these times and subject to any further representations by Miss J or Shop Direct, I intended to uphold this complaint in part and say that Shop Direct should put things right as follows:

Putting things right – what Shop Direct needs to do

I didn't think that Shop Direct had acted responsibly when it increased the credit limit on Miss J's account beyond £900 from 24 August 2019. In order to put Miss J back into the position she would have been in had this not happened means she shouldn't have to pay any interest or charges on amounts she borrowed above £900. So, Shop Direct should:

- Rework Miss J's account to ensure that from 24 August 2019 onwards interest and charges are removed on amounts borrowed above £900 and interest is only charged on the first £900 outstanding on the account to reflect the fact that no further credit limit increases should have been provided; and
- Apply Miss J's repayments after this date 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 Miss J 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 Miss J's credit file;
- If an outstanding balance remains on the account once these adjustments have been made, Shop Direct needs to ensure that Miss J is only liable for this adjusted balance. Shop Direct should look to arrange an affordable payment plan with Miss J for the outstanding amount. In this case, once Miss J 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 Miss J a certificate showing how much tax it has taken off if she asks for one.

Miss J responded to my provisional decision to say that she accepted it.

Shop Direct responded to my provisional decision to say that it agreed with my recommendations.

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 Miss J and Shop Direct 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 Miss J’s complaint in part. In full and final settlement of this complaint I order Shop Direct Finance Company Limited to put things right as I’ve 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 Miss J to accept or reject my decision before 24 November 2022.

Roslyn Rawson

Ombudsman