

## The complaint

Miss M complains that Shop Direct Finance Company Limited (SDFC) irresponsibly increased the credit limit on her credit account so she couldn't afford the repayments.

## What happened

Miss M successfully applied for a credit account with SDFC in October 2017. She was given an initial credit limit of £300. This was increased/decreased as follows:

Date	New credit limit
August 2018	£700
February 2019	£1,000
August 2019	£1,500
December 2019	£1,700
July 2020	£2,700
January 2021	£3,700
February 2022	£4,200
October 2022 (reduced to)	£3,660

Miss M made a complaint about irresponsible lending in respect of the increases applied to her account after the initial credit limit. She says the credit limit kept being increased and she was taking out other credit and struggling with her finances. She has sent to us one bank statement, covering the period 7 October to 7 November 2017.

SDFC said that it was satisfied that proportionate checks would have been completed at the time of Miss M's application. She received periodic credit limit increases after her account was approved, and at the point of each credit limit increase an assessment of her account was undertaken. It was satisfied that the issue of her account and the credit limit increases up to the December 2019 increase were appropriate. However it upheld her complaint concerning the credit limit increases after July 2020 (to £2,700). So it agreed to refund interest payments and charges from the point Miss M's credit account balance exceeded £1,700 (i.e. the previous credit limit).

On referral to the Financial Ombudsman Service our Investigator said that having investigated her complaint she thought that the offer by SDFC was fair and reasonable.

Miss M didn't agree, she said that through the period of her having the account her payments were for the majority of the time paid late - she had to be constantly reminded to pay and most months had to pay a £12 late fee because of not having the funds available when she was supposed to have it – but SDFC still continued to put the credit limit up.

The matter has been passed to me for further consideration. I asked for Miss M to provide copies of her bank statements for the months prior to each credit limit increase up until the increase to £1,700. She hasn't supplied them.

### **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 taken that approach into account in considering Miss M's complaint.

So, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, but it needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. As a lending relationship continues over time and the level of credit increases, lenders may need to obtain further information from a borrower to check whether they're lending responsibly and that the repayments are sustainable for the customer.

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

For the initial application, SDFC carried out a credit check which shows Miss M had one retail credit account, no accounts in arrears or in default. For the low credit limit her income was sufficient to be able to repay the monthly amount. I've seen Miss M's bank statement for the month leading up to the application and it shows no loan or other credit payments and the current account remained in credit.

Until the February 2019 increase the SDFC account was generally well maintained with no arrears or late payment charges. The account balance didn't exceed a maximum of £409 up until the August 2019 credit limit increase to £1,500.

In August 2019, bearing in mind the large increase, from £1,000 to £1500, and bearing in mind that Miss M had been charged four late payment fees, a more detailed check could have been carried out, particularly concerning her income. I appreciate that being late with a monthly payment may be an indication of financial difficulty, but, assuming it renewed its credit check, if SDFC had carried out any more detailed checks I'm unable to say what those

checks would have shown it. As I haven't seen any evidence concerning Miss T's income and expenditure for that period, I can't uphold the complaint about this credit limit increase..

Similarly with the increase to £1,700, in December 2019, I've not seen any evidence from Miss M concerning her income and expenditure for that period. She had two further late payment fees applied and the account had been in arrears of £48.93 for one month. However without that further evidence I'm unable to say whether or not SDFC made a fair lending decision.

For the increase in the credit limit after 4 July 2020 (to £2,700), and subsequent increases, SDFC has already agreed that those increases shouldn't have been applied. It has agreed to refund all interest and charges on all balances over £1,700. I believe it has done that, but if not it should do so following this decision.

SDFC further agreed to take the necessary steps to remove any adverse information recorded on Miss M's credit file since 4 July 2020.

I think that those were reasonable steps to take. This doesn't result in a credit balance on the account so no further payment of interest was due to be made.

### **Putting things right**

If it hasn't done so already, SDFC should:

- Rework the account removing all interest and charges that have been applied to balances above £1,700.
- If the rework results in a credit balance, this should be refunded to Miss M along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. SDFC should also remove all adverse information recorded after 4 July 2020 regarding this account from Miss M's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,700, SDFC should arrange an affordable repayment plan with Miss M for the remaining amount. Once Miss M has cleared the outstanding balance, any adverse information recorded after 4 July 2020 in relation to the account should be removed from her credit file.
- Arrange an affordable repayment plan with Miss M for any remaining amount.

\*HM Revenue & Customs requires SDFC to deduct tax from any award of interest. It must give Miss M 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 have noted SDFC's offer, and if it hasn't done so already, Shop Direct Finance Company Limited should provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 27 July 2023.

Ray Lawley  
**Ombudsman**