

## The complaint

Miss S complains Shop Direct Finance Company Limited trading as Very irresponsibly provided her with a store card account and credit limit increases.

## What happened

Miss S was provided with the following credit limits on her store card account with Shop Direct:

Lending decision	Date	Limit
Original limit	December 2018	£750
1 <sup>st</sup> limit increase	June 2019	£1,250
2 <sup>nd</sup> limit increase	October 2019	£2,250
3 <sup>rd</sup> limit increase	June 2020	£2,750
4 <sup>th</sup> limit increase	November 2020	£3,000
5 <sup>th</sup> limit increase	February 2021	£3,100
6 <sup>th</sup> limit increase	August 2021	£3,400

Miss S complained to Shop Direct in May 2022. She said it had irresponsibly provided her with this credit account because reasonable and proportionate checks at the time of each lending event would have identified the credit was unaffordable for her.

Shop Direct upheld Miss S's complaint in part. It concluded that its lending decisions from December 2018 to October 2019 were fair; but that it hadn't made fair lending decisions from June 2020 onwards. It provided redress to refund interest accrued on balances above the limit increase from June 2020 of £2,750, refund charges from this point and it also refunded deferred interest charged as part of a Buy Now Pay Later agreement. It paid this redress directly to Miss S's account to reduce the outstanding balance. Miss S didn't accept Shop Direct's outcome and brought her complaint to our service for consideration.

Our investigator reviewed Miss S's complaint and upheld it in full. She said Shop Direct hadn't made a fair lending decision when initially providing Miss S with this credit account; and therefore recommended it refund all interest and charges incurred by Miss S from the beginning of the account, together with removing any adverse recorded on her credit file once any outstanding balance had been repaid.

Miss S accepted this outcome; Shop Direct didn't. It said the checks it completed for the first three lending decisions were proportionate to the terms of credit being provided and the information it obtained about Miss S's financial circumstances. It therefore maintained its argument that it made fair lending decisions at each of these three lending events.

Shop Direct asked for an ombudsman's review, so the complaint has been passed to me to decide.

Shop Direct has already upheld Miss S's complaint in line with our approach from its fourth lending event; so, my decision here focuses on the first three lending events.

## **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.

Having done so I've reached the same outcome as our investigator, for broadly the same reasons.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website; both Miss S and Shop Direct are aware of this.

Shop Direct needed to take reasonable steps to ensure the lending it provided was responsibly lent to Miss S. The relevant rules, regulations, and guidance at the time of each of Shop Direct's lending decisions required it to carry out reasonable and proportionate checks. These checks needed to assess Miss S's ability to afford the credit limit being approved and repay it sustainably, without causing her financial difficulties or harm.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, considering things like the type, amount, duration, and total cost of the credit, as well as the borrower's individual circumstances.

And it isn't sufficient for Shop Direct to just complete proportionate checks – it must also consider the information it obtained from these checks to make fair lending decisions. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without the need to borrow further.

Shop Direct says its checks at the point of the initial limit request included it obtaining Miss S's declared income and completing a review of her credit file. It says its checks at the two subsequent limit increases included it completing a new credit check and reviewing how Miss S was maintaining her Shop Direct account. Its checks for the following two limit increases didn't include it obtaining updated income details.

Having carefully considered Shop Direct's arguments I'm not persuaded its checks were reasonable and proportionate at the point of these three lending events; or that it went on to make fair lending decisions in each of these instances.

I say this because while I acknowledge Shop Direct's argument that the initial limit agreed was relatively modest, Shop Direct was aware that Miss S's income was also relatively modest at this time; declared as £10,000 per year, equating to around £820 per month. The credit check Shop Direct completed at the point of the initial limit identified Miss S had just under £8,000 of existing debt. And Shop Direct was also aware from the application that Miss S lived in a mortgaged property and had two dependents; responsibilities that generally incur higher costs on an ongoing basis.

Based on the information Shop Direct obtained at the original application and the subsequent two limit increases; and the terms of lending being provided at each event, I consider reasonable and proportionate checks ought to have led Shop Direct to fully understand Miss S's financial situation to assess whether she would be able to sustainably afford this credit. So, I consider it should have verified Miss S's income and expenditure, as well as look to understand her existing credit commitments as it did.

As Shop Direct didn't complete reasonable and proportionate checks I've gone on to consider what these would likely have shown it.

Miss S has provided us with two bank account statements covering the months leading up to the original lending decision. Shop Direct could have looked to verify Miss S's income and expenditure by any way it saw fit. But in the absence of any other contradictory information, I consider these statements allow me to obtain an understanding of Miss S's financial circumstances around this time.

Miss S's statements support her testimony that she wasn't working at the time of this application. She has told us that she was a student and received student loan payments and was in receipt of monthly Child Benefit payments; both of which are evidenced within the statements. Miss S's partner transfers money into her account to cover some expenses, but this is sporadic with no structure or consistency. Miss S was able to cover the payments debiting her account based on these transfers, but she didn't receive a paid income.

I acknowledge Shop Direct's argument that Miss S had declared she was self-employed earning £10,000 per year. But as I've found above, I consider proportionate checks ought reasonably to have led to Shop Direct conducting further checks. Had it completed further checks it would have identified Miss S wasn't earning a salary and her income wasn't sufficient to sustainably afford repayments to this lending; and therefore it ought to have reasonably concluded Miss S wasn't a suitable candidate to lend to.

Shop Direct has argued that the credit check it completed showed Miss S held three current accounts at the time of this lending decision; and as such Miss S could receive a paid income into an account we don't have sight of. As part of our investigator's review she obtained a full copy of Miss S's credit report. On review of this report it's clear Miss S holds two current accounts; and that there is no third active or settled current account detailed on her full credit report. On that basis I consider it more likely, on balance, that Miss S held two current accounts at the time of the original lending event; both of which she's provided us with statements. So, I'm satisfied Miss S wasn't receiving a paid income in the lead up to the original lending decision.

It therefore follows that had Shop Direct completed reasonable and proportionate checks it would have identified Miss S had no paid income, and it ought reasonably to have identified this lending wasn't sustainably affordable for Miss S and that she wasn't a suitable candidate to lend to. As such, I'm satisfied Shop Direct didn't make a fair lending decision when approving the original credit limit.

As I've found Shop Direct shouldn't have provided Miss S with the initial credit limit, it follows that I don't consider it made fair lending decisions when approving the 1<sup>st</sup> and 2<sup>nd</sup> limit increases. Therefore, it needs to take further action in resolution of this complaint.

### **Putting things right**

Shop Direct Finance Company Limited trading as Very approved Miss S with a store card that I don't consider should have been provided. I think Miss S should pay back the amount she's borrowed because she's had use of the funds. But I don't consider it fair for Shop Direct Finance Company Limited trading as Very to be able to charge any interest or charges. Therefore, in order to put things right Shop Direct Finance Company Limited trading as Very should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied
  - a) If the rework results in a credit balance, this should be refunded to Miss S along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement

- b) Or, if after the rework there is still an outstanding balance, Shop Direct Finance Company Limited trading as Very should arrange an affordable repayment plan with Miss S for the remaining amount
- Once any outstanding balance has been repaid Shop Direct Finance Company Limited trading as Very should remove any adverse information in relation to this account from Miss S's credit file

\*HM Revenue & Customs requires Shop Direct Finance Company Limited trading as Very to deduct tax from any award of interest. It must give Miss 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'm upholding Miss S's complaint about Shop Direct Finance Company Limited trading as Very and direct it to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 28 August 2023.

Richard Turner  
**Ombudsman**