

The complaint

Mr G has complained that Shop Direct Finance Company Limited, trading as Very, irresponsibly lent to him.

What happened

Mr G opened a credit shopping account with Shop Direct in August 2018. He had previously held a cash account but applied to convert it. His credit account limit was initially £750. Over the course of the next 16 months Mr G's account limit was increased six times until, in December 2019 it was £2,400.

Mr G says that Shop Direct shouldn't have lent to him. He says that he couldn't afford the credit and that Shop Direct ought to have known this.

Shop Direct says it did all the necessary checks before it lent to Mr G – and when it increased his credit limit.

Our investigator thought that Mr G's complaint should be partially upheld. They thought that the initial credit given to Mr G was acceptable, but that by the time his credit was increased to £1,900, Shop Direct didn't act fairly or reasonably in doing so.

Our investigator said that Shop Direct should pay back interest and charges it made as a result of the credit that was unfairly extended to Mr G.

Shop Direct didn't agree. It said that Mr G didn't miss any payments and that the management of his account was generally good. It said that it didn't have any indication that Mr G couldn't afford the credit.

Mr G thought that his complaint should have been upheld from an earlier point.

As neither party agreed, the case has been passed to me to make a decision.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mr G's complaint.

Shop Direct needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr G could afford to repay what he 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 and Mr G's income and expenditure. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

When Mr G opened his account in August 2018, Shop Direct has told us there were no signs of financial difficulties based on the checks it did. Having reviewed the checks, I think there were some signs of concern. For example, they showed that Mr G had only had five months in the preceding 24 months where he hadn't been in arrears with other creditors. And he had had a large number of unsecured loans – 17. These may have been evidence of short term lending. I accept that his live credit limit across all his accounts was relatively low at £3,725 and that he had no current arrears or CCJs, but this doesn't negate the other information. Shop Direct also knew that Mr G had previously been in arrears with another credit account he held with Shop Direct, although this had been settled and closed the previous year.

On the basis of the information Shop Direct had, I think it ought to have found out more about Mr G's income and expenditure.

I can't be sure how Shop Direct would have done this and there is no prescriptive list of checks that a business must do, so I don't know exactly what it would have seen had it tried to find out more. It says it knew Mr G was living with his parents and had a salary of £22,501 a year. I assume this came from his application as Shop Direct hasn't provided other evidence of this.

In the absence of any other information, I think it's reasonable to rely on bank statements and a credit file Mr G has supplied. This is not to suggest that Shop Direct should have asked to see his bank statements, rather than, say, asking him to tell it about his income, borrowing commitments and essential expenditure. It is simply that this is the best way of establishing what Mr G might have disclosed to Shop Direct if it had asked.

Looking at these I am satisfied that Mr G's committed expenditure, including his rent, food, insurance, credit and other contractual commitments, left him with sufficient disposable income each month to be able to sustainably afford the repayments on the new lending. So, I think even if Shop Direct had completed necessary checks it still would have fairly concluded that Mr G could afford the additional borrowing.

The first credit limit increase came four months later. Shop Direct said it completed further checks. The investigator asked for evidence of those checks. Shop Direct said it had already provided them, but the only information it had provided about checks related to the original opening of the account, not the credit limit increases.

I think, again, Shop Direct ought to have found out more about Mr G's income and expenditure. Having reviewed Mr G's bank statements and credit file for that period I am satisfied that he had sufficient disposable income that if Shop Direct had completed necessary checks it would have still provided the credit. This same principle applies to the next two increases, too.

However, in August 2019, when Shop Direct increased Mr G's credit limit from £1,650 to £1,900, Mr G's financial circumstances appear to have deteriorated. His bank statements showed that while his income had increased marginally, his payments towards existing formal credit commitments had increased significantly. He was now spending just short of 50% of his net income each month to meet repayments on his existing formal credit and his essential expenditure accounted for a further 35% of his net income, leaving him with £250

disposable income each month. I note that Mr G was making low repayments on his revolving credit which may, if it continued, result in him being unable to pay off those commitments in a sustainable manner. So, I think Mr G lost out when his credit limit was increased to £1,900.

Mr G says that I should take into account that he was borrowing from family to meet his commitments. I can see from his bank statements that there was money coming in from (and going out to) family members. Some of it is recorded as 'borrowed' or 'payback'. However, I can't identify any specific pattern to this which suggests it was any kind of formal, long term arrangement. It wouldn't have appeared on any credit checks, and I don't think Shop Direct needed to have asked about informal lending to establish Mr G's income and expenditure. So while this may have indicated that Mr G was struggling with his finances, I don't think reasonable and proportionate checks by Shop Direct would have revealed this.

On the information available to me I think if Shop Direct had completed reasonable and proportionate checks when it increased Mr G's credit limit in August 2019 it would have understood that Mr G would struggle to affordably repay the increased credit. I think Mr G lost out as a result. I haven't seen anything to suggest Mr G's circumstances changed significantly for the better in the following months up to the sixth credit limit increase in December 2019, so I am satisfied that Shop Direct shouldn't have provided him with the two later increases, either.

Putting things right

I think it's fair and reasonable for Shop Direct to refund any interest and charges incurred by Mr G as a result of the credit unfairly extended to him. I don't think the limit should have been increased from 17 August 2019 onwards, therefore Shop Direct should rework the account and:

- remove any interest and charges incurred as a result of any increases (including any buy now pay later interest). That is, Shop Direct can only add interest accrued on the balance up to the credit limit of £1,650 – this being the credit limit before 17 August 2019.
- Shop Direct should work out how much Mr G would have owed after the above adjustments. Any repayment Mr G made since 17 August 2019 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Mr G along with 8% simple interest per year* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Mr G no longer owes any money then all adverse information regarding this account should be removed from the credit file from 17 August 2019.
- Or, if an outstanding balance remains, Shop Direct should look to arrange and affordable payment plan with Mr G for the outstanding amount. If any debt was sold to a third party, Shop Direct should either repurchase the debt or liaise with the third-party to ensure the above steps are undertaken. Once Mr G had cleared the balance, any adverse information as a result of the unfair lending should be removed from the credit file.

*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest. It must give Mr G 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 think Shop Direct acted unfairly when it extended further credit to Mr G on 17 August 2019. To put this right I direct Shop Direct & Company Limited to pay compensation as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 11 October 2023.

Sally Allbeury
Ombudsman