

The complaint

Miss W complains Shop Direct Finance Company Limited trading as Very irresponsibly provided her with an unaffordable catalogue shopping account and credit limit increases.

What happened

Miss W was provided with the following credit limits on her account with Very:

Lending decision	Date	Limit
Original limit	September 2011	£3,000
1 st limit increase	February 2012	£3,600
2 nd limit increase	April 2012	£3,900
3 rd limit increase	September 2012	£4,200
4 th limit increase	November 2012	£4,500
5 th limit increase	December 2012	£4,800
6 th limit increase	March 2013	£5,000

In February 2023 Miss W complained to Very saying it had irresponsibly provided her with this credit account and credit limit increases. She said had Very conducted reasonable and proportionate checks before each lending decision it would have identified each of these limits were unaffordable for her.

Very didn't uphold Miss W's complaint saying its checks were reasonable and proportionate; and that it went on to make fair lending decisions in each instance. Miss W didn't accept Very's outcome and brought her complaint to our service for consideration.

Our investigator reviewed Miss W's complaint and upheld it. He considered Very's checks weren't reasonable or proportionate and that it hadn't gone on to make fair lending decisions at any of the lending events.

Miss W accepted our investigator's assessment. Very disagreed and proposed a counteroffer which Miss W declined. As such the complaint's been passed to me to decide.

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 W and Very are aware of this approach.

Very needed to take reasonable steps to ensure the lending it provided was responsibly lent to Miss W. The relevant rules, regulations, and guidance at the time of each of Very's

lending decisions required it to carry out reasonable and proportionate checks. These checks needed to assess Miss W'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 Very 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.

Very says its checks at the point of the original lending decision consisted of it completing a credit check to obtain an understanding of Miss W's existing credit commitments and credit history. It's said its checks at all subsequent limit increases consisted of the same credit check as well as a review of Miss W's management of her Very account.

Having carefully considered Very's arguments I'm not persuaded its checks were reasonable and proportionate at any of the lending events; or that it went on to make fair lending decisions in any instance.

I say this because Very provided Miss W with a significant limit when originally providing her with this credit account. Very identified through its credit check that Miss W's existing outstanding debt towards fixed terms loans stood at around £14,600, and her total available limits towards running credit accounts stood at around £5,000. However, it didn't obtain any details of Miss W's income and expenditure.

So, I don't consider it was in a position where it could reasonably satisfy itself that this initial significant level of credit, and all further increases, were sustainably affordable for Miss W. I say this as it had identified that Miss W could have a potential total outstanding debt of just under £20,000 at the point of the initial lending decision, but it hadn't satisfied itself how this debt, and the credit it was looking to provide Miss W with, was going to be repaid.

Based on the level of the original limit provided and the information Very did obtain from the credit check it obtained, I consider reasonable and proportionate checks in this instance would have led Very to verify Miss W's income and expenditure. This is in addition to obtaining details of her existing credit facilities as it did, so that it had a full understanding of her financial situation as part of its creditworthiness checks to support its lending decisions.

As I don't consider Very completed reasonable and proportionate checks, I've gone on to consider what these checks would likely have shown it at the time of the lending decisions.

Miss W has provided us with bank statements covering the three months leading up to the original lending decision, as well as several months after. Very could have looked to verify Miss W'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 W's financial circumstances around the time of the initial lending event.

Miss W's income averages around £1,680 across the three months leading up to Very's original lending decision. Through the statements and Miss W's testimony I've been able to identify several regular non-discretionary payments which average around £1,000 per month. These include payments towards rent, council tax, utilities, a mobile phone contract, insurances, travel expenses and food. Miss W was also making payments to her existing lines of credit, and on average this totalled around £700 per month. This figure is made up of

two larger payments which appear to be towards loan repayments as both have 'loan' as part of the narrative within the statements. The payments Miss W makes towards her other mail order and credit cards are more likely, on balance, minimum payments rather than payments clearing balances in full. I say this because I'm persuaded by Miss W's testimony that she was stuck in a cycle of debt, only making minimum payments towards her debts. And the payments to these lines of credit are consistently in the tens of pounds across all three months.

So, Miss W's payments towards her non-discretionary expenses and existing credit commitments total on average around £1,700. And as I've already found above, Miss W's income averaged around £1,680 per month. So, Miss W was already in a negative position on a monthly basis before factoring in monthly payments towards this account.

This is further supported as Miss W's bank account enters an overdraft position in each of the three months leading up to Very's initial lending decision, and incurs interest and charges. So, Miss W wasn't able to maintain her existing non-discretionary expenses and credit commitments on a monthly basis without using borrowing by way of an overdraft to do so. It therefore follows had Very completed reasonable and proportionate checks that it would have been on notice that Miss W was already in a position where she was using borrowing to repay borrowing on a monthly basis, and by providing this lending Very would be only worsening this position.

So, had Very completed reasonable and proportionate checks I consider it ought reasonably to have identified any level of lending wasn't sustainably affordable for Miss W; and it would therefore have identified Miss W wasn't a suitable candidate to lend to. As such, I'm satisfied Very didn't make a fair lending decision when approving the original credit limit.

As I've found Very shouldn't have provided Miss W with the initial credit, and from the evidence I have that her financial situation didn't significantly improve in the following months (the use of her overdraft facility increased both in terms of the level of overdraft balance and the number of days in the facility), it follows Very shouldn't have provided any of the credit limit increases. As such, I don't consider Very made fair lending decisions where approving any of the limit increases.

Putting things right

Shop Direct Finance Company Limited trading as Very approved Miss W with a catalogue shopping account that I don't consider should have been provided. I think Miss W 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 W along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement
 - b) If after the rework there is still an outstanding balance, Shop Direct Finance Company Limited trading as Very should arrange an affordable/suitable repayment plan with Miss W for the remaining balance
- Once any outstanding balance has been repaid Shop Direct Finance Company Limited trading as Very should remove any adverse information recorded on Miss W's credit file in relation to this account

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

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

Richard Turner
Ombudsman