

The complaint

Miss F complains that Shop Direct Finance Company Limited (Shop Direct) lent to her irresponsibly. She says Shop Direct didn't do enough to check she could afford to repay the lending sustainably. Miss F says that the initial limit and all subsequent limit increases were unaffordable.

What happened

Miss F opened a catalogue shopping account with Shop Direct in August 2013. Over the subsequent years her limit changed as follows:

No	Date	Limit
Account opening	17/08/2013	£500
1	07/12/2013	£1,000
2	26/04/2014	£1,200
3	16/08/2014	£1,500
4	06/12/2014	£1,700
5	28/03/2015	£1,900
6	18/07/2015	£2,100
7	07/11/2015	£2,400
8	27/02/2016	£2,700
9	18/06/2016	£3,000
10	18/08/2016	£3,500
Decrease	31/10/2020	£3,200

Miss F complained to Shop Direct about the lending and it explained it believed it had done the appropriate checks at both the account opening and the subsequent limit increases. Miss F was unhappy with this response and referred the case to this service.

One of our investigators looked into Miss F's complaint. He agreed the checks carried out by Shop Direct had been proportionate and the account was affordable for the opening credit limit on the account, and the limit increases up to £2,100. However, he didn't think the checks for the limit increases to £2,400 and above were proportionate. The investigator considered Miss F's financial situation at the time of the later increases. He found that had Shop Direct carried out further checks it would have been apparent that the credit limits being given weren't sustainably affordable for her.

Miss F accepted what our investigator said but Shop Direct disagreed. It said that Miss F managed the account with it and other credit providers well. Shop Direct also said that Miss F had other accounts and that by just considering her main account, the investigator had taken a view of Miss F's finances that was too narrow. As there was no agreement, the complaint has been passed to me for 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. I've taken that into account when considering Miss F's complaint.

Shop Direct needed to take reasonable steps to ensure that it didn't lend irresponsibly to Miss F. This means that it should have carried out proportionate checks to make sure she could afford to repay what she was being lent in a sustainable way. These checks could take into consideration several different things, such as how much was being lent, the amount of the repayments and Miss F'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.

Where the amount being lent to a customer is moderate, less thorough checks might be reasonable and proportionate. However, there are some factors which are likely to indicate that more thorough checks are needed, such as:

- A lower income
- A higher amount to be repaid
- Long term or running credit
- The number and frequency of loans and other credit accounts

I've taken all of this into account when considering Miss F's case. Having done so I don't think Shop Direct has acted fairly for broadly the same reasons as the investigator.

Opening limit and limit increases up to November 2015

An opening limit of £500 is relatively modest and would generally incur monthly repayments of around £50 if maintained. So, we might not expect the same level of checks on this sum as we would expect on higher credit limits.

At account opening, Miss F hadn't opened any accounts in the last 12 months, had a total live credit limit of £1,500 and her active accounts appeared to be up to date. So, I don't think the checks Shop Direct did, revealed any potential concerns about unaffordability at account opening. So, I think it reached a fair decision to lend at this point.

The credit limit increases between account opening and £2,100 significantly increased Miss F's overall available credit by increasing the limit by £200-£300 every few months. From the evidence I've seen it doesn't appear that Shop Direct held information about Miss F's income and expenditure. So, it would have been reasonable for Shop Direct to have carried out further checks to ensure she could sustainably repay the higher credit limits.

However, having reviewed the evidence available, I can see Miss F was maintaining her other credit accounts at that time. Miss F also had a steady income, and enough disposable income to sustainably manage the payments to the account. So had Shop Direct carried out more thorough checks, I don't think the evidence would have suggested the credit limit increases made before November 2015 would have been unaffordable. So, again I think Shop Direct made a fair decision to lend here.

Limit increases from November 2015

Given the circumstances of Miss F's case I think Shop Direct unfairly increased Miss F's credit limit from November 2015 onwards. I say this because having reviewed all the information, it's clear that whilst Miss F was managing the account, she was only making minimum or close to minimum payments to it prior to this point. In addition to this the monthly minimum repayments on the account would have increased significantly if Miss F were to utilise the full increased limit.

As with the earlier increases I don't think Shop Direct went far enough to ensure she could sustainably repay the debt if she were to reach the credit limit. Given the higher amount that would need to be repaid on a running credit account, the other credit commitments Miss F had, and the fact that she was only making the minimum repayments, I think Shop Direct ought to have carried out more checks.

I can't be certain what further checks Shop Direct would have done and there's no definitive list of checks that a business must do. So, I can't say exactly what it would have seen had it tried to find out more. But I think it would have been reasonable for Shop Direct to gain a better understanding of Miss F's financial circumstances, perhaps by asking her for information about her income and expenditure. As Shop Direct didn't ask for this information at the time it increased Miss F's available credit, we must rely on the information now available. Miss F has provided our service with her bank statements from the time the limits were increased. I think it's reasonable for us to rely on these to obtain an understanding of what Shop Direct would likely have found had it completed reasonable and proportionate checks.

I understand that Shop Direct has concerns that by only considering Miss F's main account the investigator has taken a view of her financial circumstances that is too narrow. However, Miss F has provided statements for more than one account which I have reviewed.

Given this, I can't agree that a narrow view of her circumstances has been taken. In addition to this, I wouldn't expect savings to ordinarily be taken into account when considering affordability. I say this because savings can be spent in one lump sum and aren't an accurate reflection of a person's average income which provides a better indicator of sustainable affordability.

Had Shop Direct carried out more thorough checks, they would have seen that Miss F's living costs and indebtedness increased, leaving her with significantly less disposable income.

Miss F is regularly reliant on her overdraft and by this point has also taken out a loan. The overall trend on the Shop Direct account is that the balance steadily grows rather than reduces and only minimum payments are being made.

Had Shop Direct carried out proportionate checks I think it would have understood that increasing Miss F's credit limit in November 2015, would likely lead to her not being able to sustainably repay the debt. So, I don't think it reached a fair decision to increase her limit beyond this point.

Putting things right

I think it's fair and reasonable for Shop Direct to refund any interest and charges incurred by Miss F as a result of the credit unfairly extended to her. I don't think the limit should have been increased from November 2015 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) over £2,100. This means, Shop Direct can only add interest accrued on the balance up to the credit limit of £2,100.
- Shop Direct should work out how much Miss F would have owed after the above adjustments. Any repayment Miss F made since November 2015 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Miss F 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 Miss F no longer owes any money, then all adverse information regarding this account should be removed from her credit file from November 2015.
- Or, if an outstanding balance remains, Shop Direct should look to arrange an affordable payment plan with Miss F for the outstanding amount. If the 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 Miss F has cleared the balance, any adverse information because 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 Miss F 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 Miss F from November 2015. To put this right, I direct Shop Direct Finance Company Limited to pay compensation as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 14 March 2024.

Charlotte Roberts
Ombudsman