

Complaint

Miss H says Shop Direct Company Finance Limited (trading as “Very”) irresponsibly provided her with a catalogue shopping account which it then unfairly increased the credit limit on a number of times.

She says her credit limit shouldn’t have been increased so many times when she was only ever covering the minimum payment and struggling.

Background

This complaint is about a catalogue shopping account Very initially provided to Miss H in January 2015.

Miss H was initially given a credit limit of £1,150.00.

The credit limit was then increased on seven occasions at the following times:

April 2015 - £1,350.00
July 2015 - £1,650.00
December 2015 - £1,900.00
March 2016 - £2,400.00
July 2016 - £2,800.00
December 2017 - £3,300.00
June 2018 - £4,300.00

Miss H fell into arrears and her account was eventually sold to a third-party debt purchaser.

When providing us with its file of papers on this case, Very agreed it should not have granted Miss H her final limit increase and agreed to refund all of the interest charged above £3,300.00 from June 2018 onwards (in other words, it agreed to refund all of the extra interest charged as a result of providing the credit limit increase that it shouldn’t have).

Our investigator didn’t think that this went far enough. In her view, Miss H’s complaint about the limit increases from the third one onwards, in December 2015, also should have been upheld as Very ought to have seen that these were unaffordable for her.

Miss H didn’t disagree with the investigator’s assessment. But Very didn’t accept her conclusions. So the complaint was passed to an ombudsman as per the usual next stage of our process.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I think that Very needs to do more than what it has already done in order to put things right for Miss H in a way that's fair and reasonable in all the circumstances. I'll explain why I think that this is the case in a bit more detail.

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.

Very 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 Miss H could afford to repay what she 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 the consumer's income and expenditure.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that Very should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I've considered Miss H's complaint in this context.

Our investigator set out, in some detail, why she thought Very unfairly increased Miss H's credit limit from December 2015 onwards. Very disagreed with our investigator's conclusions saying:

- although it accepted Miss H's external balances had increased in the period between the second limit increase and the third one, it didn't agree her payments had gone up by as much as had been suggested by our investigator and it did not indicate that Miss H could not repay a further £250 within a reasonable period of time.
- Miss H regularly managed chargeable balances over £1,900.00 – including making a lump sum payment of £1,500.00 in December 2016.
- Miss H was using a lower percentage of her available credit that she was when her account was opened and this demonstrates she was not reliant on credit in the way suggested.

- Miss H was making payments far in excess of the contractual minimum required in this period.

I've considered what Very has said and have also looked at the overall pattern of its lending history with Miss H together with all of the information that's been provided here. And having carefully considered everything, I also think that the limit increase in December 2015 (and the ones subsequent to this) should not have been provided.

In the first instance, it isn't clear to me whether Very is suggesting that the limit increase in December 2015 was not significant and therefore an assessment of affordability wasn't required, or whether the checks it did carry out were sufficient to justify granting Miss H a limit increase of £250.

In any event, I think that what Very needed to consider at this point was whether Miss H would be able to repay £1,900.00 plus any interest accrued within a reasonable period of time, as this is what there was the potential for her to have to repay. Not just whether Miss H could repay £250 within a reasonable period of time.

It is clear to see that Miss H's total debt and revolving credit commitments increased exponentially between when the account was initially provided in January 2015 and when the limit increase in question was offered some ten months later. Very says that Miss H was using a lower percentage of her available credit at the time of the limit increase than she was when the account was provided.

This is a matter of fact is true. But I don't think that this tells the whole story. I say this because while Miss H might have only been utilising 55% of her available credit at this point, rather than the 88% she was using when the account was provided, she had revolving credit balances of more than six times the amount she did some ten months earlier. So I don't think that Miss H utilising a lower percentage of the clearly much higher amount of credit available to her necessarily means that she was less reliant on credit in the way that has been suggested.

Furthermore, I have concerns with the amount Very appears to have attributed for Miss H paying towards her credit commitments. Miss H owed approaching £24,000.00 at the time the limit increase was offered. And total monthly credit payments of £204 a month seems low. This is particularly as the same figure seems to be used when Miss H owes £2,000.00 more in April 2016.

I've also considered what Very has said about the large payment that Miss H made to her account in December 2016. The first thing for me to say in relation to this argument is that what I need to consider is Miss H's position in December 2015 – not December 2016. And just because Miss H was able to make such a large payment in December 2016, it doesn't necessarily follow that this was the case in December 2015.

In any event, I think that Very is taking a narrow view of one metric in isolation in order to advance its argument. And this has led to it forming a more positive view of Miss H's financial position in December 2016. It is fair to say that should a debtor make a much larger payment than required contractually – such as the one Miss H made in December 2015 – this could be an indication that they are in a sound financial position. However, I don't think that this would remain the case if the borrower borrowed further to repay.

I think that is exactly what happened when Miss H made her payment in December in 2016. I say this because Very's credit checks show that Miss H opened a new credit account in December 2016. And her total indebtedness increased by around £12,000.00 at this point.

So it seems to me that Miss H may well have taken out a loan at that point and used some of the funds she obtained in order to reduce the balance on her Very account.

So I don't think that Miss H's actions, in December 2016, were a reflection of her making a substantial payment without having to borrow further. And I most certainly don't agree that this payment supports the view that the limit increase provided a year earlier was affordable.

In my view, proportionate checks into Miss H's circumstances in December 2015, which would have, bearing in mind the increase in her overall indebtedness, required finding out about Miss H's actual living costs as well as her credit commitments, will have shown Very that Miss H was not in a position to repay £1,900.00 within a reasonable period of time. And that there was a significant risk increasing Miss H's credit limit at this point (and subsequently as it did) given her indebtedness increased even more, would lead to her indebtedness increasing unsustainably.

As Very increased Miss H's credit limit in December 2015 and a further four times afterwards, in these circumstances, I'm satisfied that it failed to act fairly and reasonably towards her. I also think that Miss H lost out as a result of Very failing to act fairly and reasonably towards her.

I'm satisfied that this is the case because Very continuing to increase Miss H's credit limit from December 2015 onwards not only unfairly prolonged Miss H's indebtedness by allowing her to use additional credit she couldn't afford over an extended period of time, it also increased the amount of interest she had to pay and got her into further debt. So I'm satisfied that Very now needs to put things right.

Fair compensation – what Very needs to do to put things right for Miss H

- rework Miss H's account (including any payments made to the third-party debt purchaser) to ensure that from December 2015 onwards interest is only charged on the first £1,650.00 outstanding to reflect the fact that no further credit limit increases should have been provided from December 2015. All late payment and over limit fees should also be removed. Very has already sent Miss H a cheque to Miss H for the part of her complaint it has already upheld. If this cheque has already been banked, Very can reflect this payment in the reworking of Miss H's balance. And
- If an outstanding balance remains on the account once these adjustments have been made, Miss H will need to contact the third-party to arrange a suitable repayment plan for this. If Very considers it appropriate to record negative information on Miss H's credit file, it should backdate this to December 2015.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss H, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Very should remove any adverse information (it has recorded) from Miss H's credit file†.

†HM Revenue & Customs requires Very to take off tax from this interest. Very must give Miss H a certificate showing how much tax it's taken off if she asks for one.

It is my understanding that Very sold the outstanding balance on this account to a third-party debt purchaser. So, in order to comply with this final decision, if after having carried out the calculations above an outstanding balance remains, Very would either need to buy the account back from the third party and make the necessary adjustments, or pay an amount to the third party in order for it to make the necessary reductions on what might still be owing, or make a payment directly to Miss H.

If Miss H has settled the account already then any compensation due (when any payments made to the debt purchaser are taken into account) should be paid directly to Miss H.

My final decision

For the reasons set out above, I'm partially upholding Miss H's complaint. Shop Direct Company Finance Limited (trading as Very) should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 12 February 2024.

Jeshen Narayanan
Ombudsman