

Complaint

Mrs G says Shop Direct Company Finance Limited (“Shop Direct”) irresponsibly provided her with catalogue shopping accounts which it then unfairly increased the credit limit on a number of times.

Background

Mrs G had two catalogue shopping accounts with Shop Direct. The following accounts were opened on the following dates:

Very Account

November 2017 – Credit facility opened with a limit of £600*

January 2019 – Limit increased to £650

April 2019 – Limit increased to £700

October 2019 – Limit increased to £1,000.00

April 2020 – Limit increased to £2,000.00

February 2022 – Limit increased to £3,000.00

* Mrs G’s account was actually opened in May 2017 but she wasn’t able to purchase items on credit until November 2017

Littlewoods Account

May 2018 – Opened with a credit limit of £400

September 2018 – Limit increased to £450

December 2018 – Limit increased to £500

April 2019 – Limit increased to £550

August 2019 – Limit increased to £600

... Limit decreases from August 2019 onwards until credit limit reaches £150 in March 2021

November 2021 – Limit increased to £1,150.00

Shop Direct’s conclusions when investigating Mrs G’s complaint

Very account

When it reviewed Mrs G’s complaint, Shop Direct accepted that it shouldn’t have provided Mrs G with the limit increase to £3,000.00 on her Very account in February 2022 (in other words, it should never have increased the credit limit on Mrs G’s Very account above £2,000.00). It agreed to remove all interest charged on balances above £2,000.00 as a result.

Littlewoods account

When it reviewed Mrs G’s complaint, Shop Direct accepted that it shouldn’t have provided Mrs G with the limit increase to £1,150.00 on her Littlewoods account in November 2021 (in other words, it should never have increased the credit limit on Mrs G’s Littlewoods account

back above £150 from November 2021). It agreed to remove all interest charged on balances above £150 from November 2021 as a result.

Our investigator's findings

One of our investigators looked at everything provided and thought that what Shop Direct had agreed to do to put things right for Mrs G in relation to the Littlewoods account was fair and reasonable in all the circumstances of her case.

However, he didn't think that Shop Direct should have offered to increase the credit limit on Mrs G's Very account in October 2019. As a result he thought that Shop Direct needed to do more to put things right for Mrs G and so the complaint about this account should be partially upheld.

Mrs G accepted the investigator's conclusions.

Shop Direct didn't agree with the investigator's view on the Very account. It believed that what it had already agreed to do was fair and reasonable. As the investigator refused to alter his conclusions, Shop Direct asked for an ombudsman to review Mrs G's complaint.

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 Shop Direct needs to do more in order to put things right for Mrs G. 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.

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 Mrs G 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 Shop Direct 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 kept all of this in mind when determining Mrs G's complaint and whether Shop Direct acted fairly and reasonably towards her.

Very account

The credit facility element of Mrs G's Very account was opened in November 2017 with a credit limit of £600. This was a catalogue shopping account, which under the regulator's rules and guidance is also known as a revolving credit facility. As Mrs G's Very account was a revolving credit facility, this meant that Shop Direct was required to understand whether Mrs G could repay around £600 within a reasonable period of time.

I understand that Shop Direct carried out a credit check before initially agreeing to provide this account. Shop Direct has been unable to provide a detailed output of its credit checks. But given these credit checks were carried out a number of years ago, I don't find this too surprising and I've not drawn any adverse inferences from this.

What is important to note is that a credit limit of £600 would have required small monthly payments in order to clear the full amount owed within a reasonable period of time. And the information I've seen about Mrs G circumstances does suggest that she had the funds to make these payments. As this is the case, I'm satisfied that it wasn't unreasonable for Shop Direct to have agreed to open the credit facility on Mrs G's Very account for her.

As I've explained in the background section of this decision, Shop Direct subsequently increased Mrs G's Very credit limit on three occasions until it eventually reached £1,000.00 in October 2019. The first two of these limit increases were extremely modest – only £50. There's a question whether Shop Direct needed to do anything at all as it could be argued that these were not significant limit increases.

In any event, even if Shop Direct did carry out further checks, I wouldn't have expected it to have done too much more for the first two increases than it did when determining whether to initially provide the Very account. So, for much the same reasons, my findings in relation to these first two limit increases are the same as those for when the account was originally opened.

However, by the time of the third limit increase in October 2019, Mrs G's credit limit was being increased to £1,000.00. Our investigator set out, in some detail, why he thought Shop Direct unfairly increased Mrs G's credit limit in October 2019.

Shop Direct disagreed with our investigator's conclusions saying:

- it would not have been proportionate to request bank statements for a limit increase of £300.
- it was not aware of Mrs G's short-term lending as she'd not updated it of her address details.
- Mrs G had sufficient means to clear the balance on her Very account with a one-off payment in May 2022. This demonstrates that the payments for a limit of £2,000.00 were affordable.

Shop Direct hasn't been able to show me that it did anything more than rely on Mrs G's conduct and payment record on her Very account. And even then from what I can see, Mrs G had charges in three of the five months leading up to this increase.

I'm not suggesting that this in itself means that the limit increase should not have been offered. But I don't think that it can reasonably be said that Mrs G's account conduct in itself indicated that she was an individual who could sustainably repay even more credit.

Furthermore, given the amount Mrs G would be expected to pay on the increased limit, I would have expected Shop Direct to have found out more about Mrs G's income and expenditure (particularly about her actual regular living expenses) before providing the October 2019 increase as well as any further credit limit increases.

Where a firm failed to carry out reasonable and proportionate checks before providing credit or increasing the amount available to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information Mrs G has provided to get an idea of what Shop Direct is likely to have learned had it carried out further enquiries into Mrs G's living expenses.

To be clear I've not looked at Mrs G's bank statements because I think that Shop Direct should have requested these before increasing Mrs G's credit limit. I have considered these statements because they contain the information, I now need to consider what Mrs G's regular committed living costs were at the time.

I also think that it's worth me pointing out that what Shop Direct needed to consider at this point was whether Mrs G would be able to repay £1,000.00 plus any interest accrued within a reasonable period of time, as this is what there was the potential for her to have to repay. It wasn't just a case of establishing whether Mrs G could repay £300 within a reasonable period of time, as the response to the investigator's assessment appears to be suggesting.

I've considered the information provided in light of this. The first thing for me to say is that it does seem as though Mrs G's committed expenditure exceeded her income. Therefore she was unlikely to be able to afford the repayments to repay £1,000.00 within a reasonable period of time.

In reaching this conclusion, I've thought about what Shop Direct has said about Mrs G not updating her address details and therefore it not being aware of her short-term lending because the credit search was carried out against an address where this borrowing wasn't taken out. Its argument here appears to suggest that this means that these commitments should not be taken into account.

However, as far as I can see, the October 2019 limit increase was proactively offered and Mrs G was not asked to confirm if she still lived at the same address before any checks were carried out. So I don't think that this is a case of Mrs G attempting to mislead Shop Direct in relation to this matter. It's more a drawback of the model Shop Direct was operating.

I've also considered what Shop Direct has said about Mrs G making a significant payment of over £2,000.00 in May 2022. But I think that Shop Direct is taking a narrow view of one metric in isolation in order to advance its argument here. In any event, it is not clear to me how Mrs G making a large payment over two and a half years after the increase in question was granted shows that Mrs G had these funds in October 2019. And this is what needed to be considered at this stage.

This argument is also particularly perplexing given this payment was made at a time that Shop Direct accepts a credit limit of £2,000.00 could not be sustainably repaid by Mrs G. So if it accepts that a limit increase to £2,000.00 before the significant payment was made, was unaffordable, it isn't immediately apparent to me how it would be relevant to an earlier limit increase.

In my view, proportionate checks into Mrs G's circumstances in October 2019, which would have required finding out about Mrs G's actual living costs as well as her credit commitments, will have shown Shop Direct that Mrs G was not in a position to repay £1,000.00 within a reasonable period of time.

As Shop Direct increased Mrs G's credit limit in October 2019, in these circumstances, I'm satisfied that it failed to act fairly and reasonably towards her.

I think that Mrs G lost out as a result of Shop Direct failing to act fairly and reasonably towards her. I'm satisfied that this is the case because Shop Direct increasing Mrs G's credit limit in October 2019 increased the amount of interest she had to pay and got her into further debt.

So I'm satisfied that Shop Direct now needs to do more to put things right in relation to Mrs G's Very account and I will set out exactly what it should now do in the '*Fair compensation – what Shop Direct needs to do to put things right for Mrs G*' section of this decision.

Littlewoods account

The parties haven't challenged the findings that the investigator reached on this account. However, for the sake of clarity and for completeness, I've nonetheless considered the complaint originally made about this account.

As I've explained, Shop Direct partially upheld Mrs G's complaint about her Littlewoods account. It accepted that it shouldn't have increased Mrs G's credit limit to £1,150.00 from £150 in November 2021. So it refunded all interest charged on balances over £150 from this point onwards as a result.

Furthermore, Mrs G's balance never went above £500 prior to the limit being increased in November 2021. So it is clear that Mrs G did not lose out because of the credit limit increases from April 2019 onwards and I've therefore focused my consideration on whether the account should have been provided and the decisions to increase the credit limit to £450 in September 2018 and then £500 in December 2018.

Mrs G's Littlewoods account was opened in May 2018 with a credit limit of £400. As previously explained, Mrs G's account was a revolving credit facility and this meant that Shop Direct was required to understand whether Mrs G could repay around £400 within a reasonable period of time.

Shop Direct carried out a credit check before initially agreeing to provide this account. From what I've seen this didn't show anything too alarming or anything to indicate that Mrs G would not have been able to repay £400 within a reasonable period of time. I've not seen anything else in the information obtained to indicate that Mrs G did not have the funds to make the required payments, at this stage, either.

As this is the case, I'm satisfied that it wasn't unreasonable for Shop Direct to have agreed to have opened Mrs G's Littlewoods account with a credit limit of £400 for her in May 2018.

As I've explained in the background section of this decision, Shop Direct subsequently increased Mrs G's Littlewoods credit limit on five occasions (as set out there were also some limit decreases in this period too) until it eventually reached £1,150.00 in November 2021.

I've already explained why I'm only looking at the first two of these increases. These limit increases were extremely modest – only £50. There's a question whether Shop Direct needed to do anything at all as it could be argued that these were not significant limit increases.

In any event, even if Shop Direct did carry out further checks, I wouldn't have expected it to have done too much more for these increases than it did when determining whether to initially provide the Littlewoods account. So, for much the same reasons, my findings in relation to these first two limit increases are the same as those for when the account was originally opened.

As this is the case, I'm therefore satisfied that what Shop Direct has already done in relation to the Littlewoods account is fair and reasonable in all the circumstances of Mrs G's case and I'm not requiring it to do anything more or anything further, in relation to this part of Mrs G's complaint.

Fair compensation – what Shop Direct needs to do to put things right for Mrs G

Overall and having considered everything, I think that Shop Direct now needs to do the following to put things right for Mrs G. It should:

- rework Mrs G's Very account to ensure that from October 2019 onwards interest is only charged on the first £1,000.00 outstanding to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed. If Shop Direct has already paid Mrs G for the part of her complaint it has already upheld, Shop Direct can reflect this in the reworking of Mrs G's balance.

AND

- If an outstanding balance over £1,000.00 remains on the account once these adjustments have been made and Shop Direct considers it appropriate to record negative information on Mrs G's credit file, it should backdate this to October 2019.

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 Mrs G, 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, over £1,000.00, remains after all adjustments have been made, then Shop Direct should remove any adverse information (it has recorded) from Mrs G's credit file†.

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

My final decision

For the reasons set out above, I'm partially upholding Mrs G's complaint. Shop Direct Company Finance Limited 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 Mrs G to accept or reject my decision before 4 March 2024.

Jeshen Narayanan
Ombudsman