

Complaint

Mr K 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. In effect, he says that he shouldn’t have been provided with his account and his credit limit shouldn’t have been increased so many times.

Background

This complaint is about a catalogue shopping account Very initially provided to Mr K in October 2015.

Mr K was initially given a credit limit of £1,500.00. This limit was then increased on eight occasions at the following times:

October 2018 - £2,300.00
May 2019 - £3,300.00
July 2019 - £3,550.00
November 2019 - £3,850.00
February 2020 - £4,150.00
April 2020 - £4,450.00.
November 2020 - £4,750.00
December 2020 - £5,000.00

Our investigator considered Mr K’s complaint. And she thought that didn’t think that this went far enough. In her view, Mr K’s complaint about all of the limit increases should be upheld as Very ought to have seen that none of the increases were affordable for him.

Mr K accepted 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’m partially upholding Mr K’s complaint and directing Very to take action in relation to his account. I’ll explain why 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 Mr K 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 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 kept this in mind when determining Mr K's complaint.

Our investigator set out, in some detail, why she thought Very unfairly increased Mr K's credit limit from October 2018 onwards. Very disagreed with our investigator's conclusions saying that Mr K:

- made a large payment, in excess of the contractual payment due, shortly before the limit increase was offered.
- didn't have any defaults or county court judgments recorded against him.
- the clearest indication of the affordability of the limit increases is Mr K's management of his account and he made a one-off payment of £4,000.00 in December 2022.

I've considered what Very has said and have also looked at the overall pattern of its lending history with Mr K together with all of the information that's been provided here. And having carefully considered everything, I also think that the limit increase in October 2018 (and the ones subsequent to this) should not have been provided in this instance.

From Very's credit checks it is clear to see that Mr K's was regularly using short-term credit. He had taken eight payday loans out in the six months prior to the limit increase being offered. And the percentage Mr K was using of his revolving credit accounts was creeping upwards in the period leading up to October 2018. This was not reflective of an individual in a strong financial position, or an indication that further checks weren't required before ascertaining that further credit of around a further 50% of the existing credit was affordable.

I've also considered what Very has said about the large payment that Mr K made to his account in just before the limit increase was offered. The first thing for me to say is that just because Mr K was able to make a large payment at this time, it doesn't necessarily follow that this means he could afford to have his credit limit increased.

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 Mr K's financial

position in the lead up to October 2018. It is fair to say that Mr K did make a large payment on receipt of his September 2018 statement. However, it is also fair to say that Mr K hadn't make a payment for a number of months leading up to this.

I accept that as Mr K only had a by now pay later balance during this period he wasn't required to make payments during the period I've considered. Nonetheless, it is important to understand the overall context, particularly as despite the September 2018 payment, Mr K still ended the month owing Very considerably more than he did at the time of his previous statement.

Furthermore, while Very has also referred to a payment in December 2022 – more than four years after when I think it shouldn't have increased Mr K's credit limit - Mr K immediately spent approaching £2,750.00. In my view, this was indicative of someone who may have been reborrowing to cover the hole making larger payments were leaving in his finances.

So I don't think that Mr K's actions, in December 2022, were necessarily a reflection of him being able to repay his credit limit without having to borrow further. And I most certainly don't agree that this payment supports the view that the limit increase provided more than four years earlier was affordable.

In my view, proportionate checks into Mr K's circumstances in October 2018, which would have, bearing in mind what Very saw in its credit checks, required finding out about Mr K's actual living costs as well as his credit commitments, will have shown Very that Mr K was not in a position to repay £2,300.00 within a reasonable period of time. In my view such checks will have shown that Mr K was borrowing from a number of different sources because of the effects of gambling and that his ability to repay was dependent on his success as a gambler.

In my view, this would not have been a sustainable repayment strategy. And there was a significant risk increasing Mr K's credit limit at this point (and subsequently as it did) given his indebtedness increased even more, would lead to his indebtedness increasing unsustainably. In reaching this conclusion, I've thought about what Very has said about being told that Mr K was living with parents.

I don't know if this is what Very was told at the time or whether it relied on the same information as when the account was first opened. I've not been provided with clear evidence showing me what the situation was. In any event, even leaving aside Mr K's rent payments, I think that Very ought to have questioned Mr K's expenditure given what the rest of the information gathered – particularly the credit search information - showed.

As Very increased Mr K's credit limit in October 2018 and a further seven times afterwards, in these circumstances, I'm satisfied that it failed to act fairly and reasonably towards him. I also think that Mr K lost out as a result of Very failing to act fairly and reasonably towards him.

I'm satisfied that this is the case because Very continuing to increase Mr K's credit limit from October 2018 onwards not only unfairly prolonged Mr K's indebtedness by allowing him to use additional credit he couldn't afford to sustainably repay over an extended period of time, it also increased the amount of interest he had to pay and got him 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 Mr K

- rework the account ensure that from October 2018 onwards interest is only charged on the first £1,500.00 outstanding to reflect the fact that none of the credit limit increases should have been provided. All late payment and over limit fees should

also be removed. And

- If an outstanding balance remains on the account once these adjustments have been made, Very should contact Mr K to arrange a suitable repayment plan for this balance to be repaid. If Very considers it appropriate to record negative information on Mr K's credit file, it should backdate this to October 2018.

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 Mr K, 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 or one of £1,500.00 or less remains after all adjustments have been made, then Very should remove any adverse information (it has recorded) from Mr K's credit file†.

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

My final decision

For the reasons set out above, I'm partially upholding Mr K'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 Mr K to accept or reject my decision before 12 February 2024.

Jeshen Narayanan
Ombudsman