

## The complaint

Mrs W complains that Shop Direct Finance Company Limited irresponsibly gave her two running account credit agreements she couldn't afford to repay.

## What happened

Mrs W applied for a catalogue shopping account with Shop Direct in 2016. She was given an initial credit limit of £1,000. The limit was reduced to £150 in October 2018. Mrs W applied for a second account in July 2018. She was given an initial credit limit of £1,000 (giving her £2,000 in total credit with Shop Direct at that time). The limit on the second account was reduced to £675 in October 2018 and to £250 in August 2019.

In 2023, Mrs W complained to say the account should not have been given to her. She said that if appropriate checks had been done before opening the accounts, Shop Direct would have seen the credit was unaffordable to her. Shop Direct didn't think it had acted unfairly in lending to Mrs W.

I sent Mrs W and Shop Direct my provisional decision on 12 January 2024. I explained why I thought the complaint should be upheld. I said:

*We've set out our approach to irresponsible and unaffordable lending on our website. I've used this approach when considering Mrs W's complaint. Having done so, I'm planning to uphold this complaint in part.*

*Before granting credit to Mrs W, Shop Direct needed to ensure it completed proportionate affordability checks. What is considered proportionate will vary with each lending decision. But in deciding what would be proportionate, Shop Direct needed to take into account things such as (but not limited to): the amount of credit, the size and frequency of any regular repayments, the cost of credit and the consumer's circumstances.*

*In relation to account one, I don't think I need to make any detailed analysis of the lending decision Shop Direct carried out. This is because even if I thought it had acted unfairly in lending to Mrs W, I can't see that she has materially lost out as a result.*

*I say this because from what Shop Direct has provided, Mrs W was never charged any interest or other fees on that account. As she received the goods she paid for, it would be reasonable she pays the cash price of those goods. However, she never paid anything more than the cash price, so there would be nothing for Shop Direct to refund even if I thought the lending had been unfair.*

*However, I do think Shop Direct acted unfairly when opening the second account. Shop Direct has told us that it reduced the credit limits on both of Mrs W's accounts in October 2018 because it was concerned about her repeated use of payday loans. This was only three months after it opened account two.*

*Shop Direct has provided us with copies of the credit checks it completed each month on Mrs W while she held account one. This shows that when Mrs W applied for account two, her payday loan usage was of a similar level to when Shop Direct decided to reduce her credit limit three months later.*

*At the point of application for the second account, Shop Direct's checks show that Mrs W had taken out at least 10 new payday loans in the previous six months and had been regularly relying on them for over a year. It could also see that she was utilising almost all of her available credit on other revolving credit facilities. I think all of this ought to have given Shop Direct concerns about Mrs W's ability to sustainably repay further credit. It was clear she was regularly borrowing (and relying on that borrowing) in order to meet her existing commitments.*

*Shop Direct's own decision to reduce both her credit limits only a few months later for the same reasons support that better scrutiny of the information it could see (or ought to have seen) at the point of applying for account two should have led it not to lend to her at that stage. This is because her financial situation wasn't significantly different a few months later.*

*As I don't think Shop Direct should have given Mrs W account two, I think it needs to put things right. As Mrs W has received the goods she purchased, I think it's fair she pays back what she borrowed. However, any interest, fees or charges added to the borrowing should be refunded back to her. Shop Direct should also ensure any adverse information it might have recorded with credit reference agencies is removed now that Mrs W has already paid back everything she borrowed.*

Mrs W accepted my provisional decision but Shop Direct didn't. It said that it didn't believe either account caused Mrs W any detriment. It said it didn't provide any limit increases and that the accounts were managed well.

### **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 I reached in my provisional decision and for broadly the same reasons. However, I'll address the additional points Shop Direct has made.

It says that it never provided Mrs W with any credit limit increases on either account. While that is true, it did still provide her additional credit when it opened the second account. It effectively doubled her access to credit with Shop Direct at that time.

As I set out in my provisional decision, at the point Shop Direct was looking to give Mrs W more credit (when it opened the second account), it could see that she had been relying on payday loans on a regular basis for some time. Therefore, I think it ought to have been clear that granting her further credit was going to cause further detriment to her.

I don't agree with Shop Direct that the second account caused her no detriment. It increased her access to credit at a time that it knew she was relying on credit and was in a cycle of high cost borrowing. While Mrs W may have made her payments to the second account on time, that doesn't mean there was no detriment. It's clear she continued borrowing on payday loans, which no doubt were used to meet her regular expenditure including her borrowing with Shop Direct. Further, she was charged interest on the second account, which she wouldn't have incurred if the account hadn't been opened.

For the reasons I've given above and in my provisional decision, I think Shop Direct acted unfairly when it opened the second account for Mrs W.

### **My final decision**

For the reasons given above, I uphold this complaint and direct Shop Direct Finance Company Limited to:

- Refund all interest (including buy-now-pay-later interest), fees, charges and insurances that were applied to account two.
- Pay 8% simple interest per year on that refund from the date Mrs W would have paid off all the capital borrowed (had no interest or other charges been applied) on the account to the date of settlement.
- Remove any adverse information it may have recorded on Mrs W's credit file in relation to account two.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 23 February 2024.

Tero Hiltunen  
**Ombudsman**