

The complaint

Mr O complains that Shop Direct Finance Company Limited trading as Littlewoods irresponsibly gave him a running account credit agreement he couldn't afford to repay.

What happened

In 2015, Mr O applied for a catalogue shopping account with Shop Direct. He was given an initial credit limit of £500. The limit was increased twelve times until it reached £7,950 in September 2020.

Mr O complained to Shop Direct in 2023 to say that the credit had been unaffordable to him and that the limit increases had caused him financial difficulty. Shop Direct upheld his complaint in part. It said that it shouldn't have increased the credit limit from £2,950 to £3,950 in July 2019. It agreed to refund all interest and charges applied on balances above that limit and removed any adverse information recorded on Mr O's credit file.

I sent Mr O and Shop Direct my provisional decision on 29 January 2024. I explained why I didn't think the complaint should be upheld. I said:

Shop Direct has already agreed it shouldn't have increased Mr O's credit limit to £3,950 in July 2019. I therefore only need to consider whether the earlier lending decisions were fair and reasonable.

Prior to lending (including significantly increasing a credit limit) Shop Direct needed to ensure it completed proportionate affordability checks. What is considered proportionate will vary with each lending decision. In deciding how thorough the checks ought to be, Shop Direct needed to take into account things such as (but not limited to): the amount of credit, the size of any regular repayment, the cost of credit and the consumer's circumstances.

Shop Direct says it confirmed Mr O's income in early 2017 to be at least £15,000 per year and at some undefined later time to be a minimum of £50,000 per year. It hasn't provided any supporting evidence of these checks, such as how and when it obtained this information or how reliable it might be, or what it knew about Mr O's income prior to early 2017. So, I'm not persuaded that it did enough at any stage to establish what Mr O's income was. Shop Direct has provided us with some evidence of the credit checks it completed from time to time on Mr O, but this information isn't available for every month that Mr O held the account.

The account was opened with a limit of £500. It appears from the credit file information that Shop Direct held that it could see Mr O had very recently defaulted for an amount of a few hundred pounds. I think this ought to have prompted Shop Direct to complete more thorough checks, particularly as it doesn't appear to have found out anything about Mr O's income.

I can't be sure exactly what further affordability checks would have revealed, but in the absence of anything Shop Direct did, I've relied on copies of Mr O's bank

statements from around that time. I think these give a good indication of what Shop Direct would likely have discovered about his income and essential expenditure.

It appears Mr O's monthly income fluctuated but was around £2,000 each month. From reviewing his bank statements, it appears this income was sufficient to comfortably maintain his essential expenditure and sustainably afford a credit limit of £500. I therefore don't think that more detailed affordability checks would have led to a different lending decision.

The limit was increased to £750 around six months later. Mr O had paid the minimum payment back on time each month, but his balance had been close to the limit for the majority of that time. The credit checks Shop Direct completed didn't show any significant changes in his external credit commitments. I consider proportionate checks ought to have included verification of Mr O's income and asking him about his essential expenditure. However, information I've seen from his bank statements shows that further checks wouldn't have likely led to a different lending decision.

The next increase was to £950 around four months later. Mr O had continued to maintain his Shop Direct account with the minimum payments and his balance hadn't significantly increased. The credit checks also showed no significant changes. I'm not persuaded that more detailed affordability checks would have shown any concerns about Mr O's ability to manage slightly bigger credit limit.

In June 2016, the limit was increased to £1,200. At this time Mr O's balance on the Shop Direct account had steadily reduced and was at less than £350. He had also continued maintaining the minimum payments on time. However, the credit checks showed that Mr O's unsecured lending balance had increased by around £15,000. While this was a lot, further checks would have shown the entire amount appeared to be due to a new car finance agreement Mr O had entered into. It appears he could afford to make those new regular repayments as well as meet his other essential expenditure. So, I don't think Shop Direct acted unfairly in increasing the limit at this time.

When the limit was increased to £1,700, Mr O had made two back to back repayments late to his Shop Direct account. Shop Direct says that this wasn't an indication of financial difficulty and was instead down to tardiness on Mr O's part. Having reviewed Mr O's bank statements at this time, I've not seen anything to persuade me that the increase or the existing credit limit appeared to be unaffordable or unsustainable for him.

It seems that what Shop Direct has said appears to be more likely, that Mr O had simply forgotten to pay on time. I say this because he only paid a few days late, and the balance on his bank statements wasn't materially different on the due date compared to when he actually paid. I'm therefore satisfied that if Shop Direct had completed more detailed affordability checks at this stage (as I think it should have) then it would likely have found no affordability concerns. I therefore don't think it acted unfairly when it increased the limit.

The next increase was to £1,950 only three months later. There had been no material changes in Mr O's circumstances or the way he had managed the Shop Direct account since the last limit increase. I've not seen any persuasive evidence to indicate this larger limit was unaffordable or unsustainable for Mr O. I therefore don't think Shop Direct acted unfairly in increasing the limit to £1,950.

Six months later the limit was increased to £2,450. In that time Mr O had paid late

twice straight after the previous limit increase but had made up the missed payments quickly. There was nothing of concern on the credit checks Shop Direct completed – in fact his other unsecured debt had been decreasing month on month. Further, if Shop Direct had made further affordability enquiries, it appears he had sufficient income to afford this new credit limit and his essential expenditure.

The next limit increase didn't happen until over a year later. It was increased to £2,950 in July 2018. Mr O had a period of time six months prior to the increase where he had regularly paid late. However, the most recent payments had been on time and he had recently cleared almost the entire outstanding balance in one go by paying off almost £900. The credit checks revealed that Mr O had access to more revolving credit, but he wasn't using it and his overall outstanding debt hadn't increased since the last limit increase.

Had Shop Direct completed more thorough affordability checks at this time, I've not seen anything to persuade me that it would have found concerns about Mr O's ability to repay the higher limit. It appears he had sufficient disposable income to be able to do so without facing financial difficulty.

The limit was then increased to £3,950. Shop Direct has already accepted it shouldn't have made this increase (or any further increases after this point). I don't therefore find it necessary to make any detailed findings in relation to the limit increases from this point onwards. But for completeness, I agree with Shop Direct that the limit should not have been increased beyond £2,950. The credit checks showed a deterioration in Mr O's ability to maintain his other credit commitments and there was a sustained period of payment difficulty on the Shop Direct account too.

To put things right, Shop Direct should therefore re-work the account as if the limit had never increased above £2,950. This means any interest (including buy-now-pay-later) interest on balances above that amount should be refunded to the account. It should also remove any adverse information it may have recorded since July 2019. It appears Shop Direct has already applied this refund to Mr O's account and it says it has made the necessary updates with the credit reference agencies. I'm therefore satisfied it doesn't need to do anything further to put things right.

Shop Direct accepted my provisional decision and had nothing further to add. Mr O didn't respond.

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.

As neither party had any further comments or evidence to provide, I've seen no reason to reach a different conclusion to the one I reached in my provisional decision. I'm therefore satisfied that Shop Direct didn't act unfairly in increasing Mr O's credit limit to £2,950. I think it has acted fairly in agreeing to uphold his complaint for all later credit limit increases. It therefore doesn't need to do anything more to put things right.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 13 March 2024.

Tero Hiltunen
Ombudsman