

## The complaint

Mr R complains that Shop Direct Finance Company Limited (Shop Direct) lent to him irresponsibly.

## What happened

In October 2021 Mr R successfully applied for a catalogue shopping account with Shop Direct and was given a credit limit of £600. Shop Direct then periodically increased Mr R's credit limit until the account limit reached £2,900 in February 2023 as detailed below.

	Date	Limit
Account opening	26 October 2021	£600
First increase	26 April 2022	£1600
Second increase	27 August 2022	£1900
Third increase	24 February 2023	£2900

Mr R has said he shouldn't have been approved for the account as it was unaffordable.

Shop Direct considered Mr R's complaint and said it was satisfied that it did the appropriate affordability checks when the account was opened and at the subsequent limit increases. So, it was satisfied its lending decisions were fair. Unhappy with this response Mr R referred the complaint to this service.

An investigator considered the evidence and didn't think that Shop Direct had unfairly extended credit to Mr R.

Mr R didn't accept the investigators view and the case was passed to me to decide.

## 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.

We explain how we handle complaints about unaffordable and irresponsible lending on our website. I've used this approach to help me decide Mr R's complaint. The key questions for me to think about while looking at Mr R's complaint are:

- Did Shop Direct complete reasonable and proportionate checks to satisfy itself Mr R would be able to repay the credit in a sustainable way?
- If so, did it make a fair lending decision?

I've considered these questions carefully and having done so, I've reached the same outcome as the investigator for broadly the same reasons. I'll explain why:

Shop Direct was required to carry out reasonable and proportionate checks to assess Mr R's ability to afford the credit limit it intended to offer. It had to be satisfied he could repay it sustainably over a reasonable period without causing financial difficulties.

The regulations don't set out what checks a lender must perform, but say the checks should be proportionate, considering things like the type of credit, the amount borrowed, the duration of the credit agreement and the total cost of the credit. The lender must consider the information it gathers to make a fair lending decision ensuring repayments can be made sustainably without having to borrow further.

#### *The opening limit, first, and second limit increase*

Shop Direct has provided a copy of the credit search it completed to check affordability at the point the account was opened. Shop Direct relied on this information to determine what an affordable credit limit would have been.

The credit check revealed that there was no adverse credit history, minimal borrowing from other credit providers and an income of just over £16,000.

I've thought carefully about the checks Shop Direct completed and I'm satisfied it's shown that it conducted reasonable and proportionate checks before agreeing to lend to Mr R in 2021. I don't think there's anything here to have prompted Shop Direct to complete further checks. So, based on what I've seen I think Shop Direct's decision to lend to Mr R was fair.

Shop Direct has said it carried out checks on Mr R before each of the increases given since the account opened. Again, at the first and second limit increase Mr R didn't have any adverse credit history and had been maintaining the account. He had a relatively low level of indebtedness with other creditors, which he appears to have been maintaining given his clear credit history. So, I don't think there was anything about the conduct of the account or the data gathered externally that should have put Shop Direct on notice to complete further checks for the level of lending involved.

So overall I think the checks Shop Direct made were proportionate and the lending decisions here were fair.

#### *The third limit increase*

By the time of the third increase to £2,900, it's clear from the information Shop Direct had that Mr R's circumstances had changed. We see an increased reliance on credit with other providers and Mr R is also spending more on his account (predominantly through Buy Now Pay Later). So, his overall indebtedness had increased. I can't see that Shop Direct had any updated information about Mr R's income to show that it had increased, so the potential repayments required to manage his debt were likely to be taking more of his income.

Given all of this, I think it would have been reasonable for Shop Direct to have completed more extensive searches before increasing his available limit further. I might have expected it to have asked Mr R more about his income and expenditure. I can't see it did this, so we asked Mr R for a copy of his bank statements from the time of the increase and a copy of his credit file.

Having carefully considered the information Mr R has provided, I think it's unlikely Shop Direct would have made a different decision had it made more thorough checks. I say this because at the time of the limit increase Mr R appeared to be managing to service this debt as well as pay for everyday living expenses.

I can see that Mr R did have benefit payments going into his account as well as regular payments from third parties. This meant in reality he was receiving more income than Shop Direct had previously accounted for. Mr R only used his overdraft occasionally and for low amounts and maintained his current account well. So, I think Shop Direct could have reasonably concluded at the time of the increases that Mr R would be able to sustainably afford the repayments for the higher limits.

This, alongside his good account management with Shop Direct and relatively good recent credit record, I think it's more likely than not that Shop Direct would have still made the decision to increase Mr R's available limit even if it had done further checks. And given the information available to me I don't think this decision would have been unreasonable. So, I don't think Shop Direct has acted unfairly or irresponsibly by extending credit to Mr R.

As well as thinking about whether the lending was responsible, I've also considered whether Shop Direct has acted unfairly in any other way, including whether its relationship with Mr R might have been unfair under the Consumer Credit Act 1974. However, for the same reasons I've set out above, I've not seen anything that makes me think this was likely to have been the case.

From Mr R's credit file, it looks like he fell into some financial difficulties towards the end of 2023. Shop Direct has said it will review Mr R's account to ensure the lending is still affordable. However, I would remind Shop Direct of its obligation to treat its customers fairly where they find themselves in financial difficulties.

### **My final decision**

For the reasons I've set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 12 June 2024.

Charlotte Roberts  
**Ombudsman**