

## The complaint

Miss G complains that Shop Direct Finance Company Limited acted irresponsibly in offering her a catalogue shopping account that was unaffordable for her.

## What happened

Miss G opened an account with Shop Direct under its very brand in October 2017. It was initially a cash account, and Miss G applied for credit in May 2018. Shop Direct initially offered a credit limit of £1,000.

The limits of the accounts were changed as follows:

| Date       | Credit Limit |
|------------|--------------|
| May 2018   | £1,000       |
| June 2019  | £1,500       |
| March 2020 | £2,500       |

In 2023, Miss G complained that the account had been unaffordable for her. Shop Direct didn't issue a final response to Miss G's complaint within the timeframe set by the regulator, so Miss G referred her complaint to our service.

When it responded to our service about the complaint, Shop Direct told us that when Miss G applied for the account it assessed information sourced from credit bureaus, and the limits were offered based on its findings. It said that Miss G received periodic increases in the credit limits, and it assessed her account each time it offered an increased credit limit.

Shop Direct said it thought it had acted reasonably in offering the initial credit limit, and the limit increase in June 2019. But, it thought it shouldn't have offered the further limit increase in March 2020. It therefore offered to re-work the account to refund any interest and charges from the point the balance exceeded £1,500.

One of our Investigators considered the complaint. He thought that Shop Direct had acted reasonably in offering the initial credit to Miss G, but he thought it shouldn't have increased the credit limit to £1,500 in June 2019 because there had been late payments two months prior to the increase. To resolve the complaint, our Investigator recommended that Shop Direct re-work the account to refund any interest and charges from the point the balance exceeded £1,000.

Miss G didn't respond to our Investigator's opinion. Shop Direct disagreed. It said the account had been brought up to date quickly, so it didn't think the late payments meant that the limit increase was unreasonable.

As our Investigator couldn't resolve things, the case came to me to decide. I issued a provisional decision, in which I said I thought Shop Direct's offer was a fair way to resolve the complaint.

Both parties responded to say they accepted my provisional decision.

## 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.

In my provisional decision, I said:

*"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint."*

*I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.*

*I've considered the relevant rules and guidance on responsible lending set by the regulator, laid out in the consumer credit handbook (CONC). In summary, these say that when Shop Direct first offered each catalogue account – and each time it offered a credit limit increase – it needed to complete reasonable and proportionate checks to satisfy itself that Miss G would be able to repay the debt in a sustainable way, without borrowing further elsewhere. As these were open ended accounts, Shop Direct also needed to consider whether Miss G would be able to repay the debt within a reasonable period.*

*Shop Direct has already says it accepts it shouldn't have increased the credit limit from £1,500 to £2,500 in March 2020. So I haven't considered that limit increase in detail as the offer it has made is in line with what our service would award if we were to uphold the complaint. Instead, I've focused on Shop Direct's initial decision to lend, and the limit increase in June 2019.*

### Account opening

*Shop Direct has explained that prior to offering Miss G the account, it assessed information from a credit reference agency to determine whether or not to lend. The information Shop Direct found showed that Miss G's existing credit commitments were all up to date, and that she'd had no arrears in the preceding two years. Shop Direct found she had a revolving credit limit elsewhere of £600, and nine unsecured loans.*

*Shop Direct has informed us that when Miss G applied for the account, it recorded that she was employed full time with an annual income of £25,501, and that she was living with parents. Her annual income would mean she had a monthly income of around £1,700.*

*As I've explained above, Shop Direct needed to conduct proportionate checks to satisfy itself that Miss G would be able to repay the debt in a sustainable way, within a reasonable period. In this instance, Shop Direct offered an initial credit limit of £1,000. So, sustainable repayments of around 5% of the initial credit limit – allowing Miss G to repay the interest charged and part of the capital if the account were utilised to its limit – would be around £50.*

*I think the checks Shop Direct conducted were proportionate to the level of credit it offered, and I don't think it found any information that should have given it cause for concern. I think that, based on the information it found, it was reasonable that Shop Direct considered the credit limit of £1,000 to be sustainable and affordable for Miss G.*

### Credit limit increase in June 2019

*Before offering the credit limit increase in June 2019, Shop Direct conducted external credit checks and considered the conduct of the account held with it.*

*Our Investigator noted the information from credit reference agencies showed that Miss G had a credit card balance of around £5,600 and her credit utilisation over the preceding 12 months was around 93% of her credit limit. It also showed that arrears had been reported against at least one of Miss G's accounts in seven out of the preceding twelve months.*

*Our Investigator also noted that Miss G had missed two payments towards the Shop Direct account in the seven months leading up to the credit limit increase, and otherwise had only made the minimum payment. In response to the Investigator's opinion, Shop Direct said that the payments had been late – rather than missed – and then Miss G had swiftly made an overpayment.*

*I accept Shop Direct's explanation that the payments were late. However, I can't see that Miss G made anything more than the minimum payment overall in the five statement periods leading up to the limit increase. I've laid out the minimum payments, and the corresponding amounts paid as follows:*

| <i>Statement date</i>   | <i>Minimum payment due</i> | <i>Payment made</i> |
|-------------------------|----------------------------|---------------------|
| <i>1 December 2018</i>  | <i>5</i>                   |                     |
| <i>29 December 2018</i> | <i>22.67</i>               | <i>-10</i>          |
| <i>26 January 2019</i>  | <i>29.1</i>                | <i>0</i>            |
| <i>23 February 2019</i> | <i>31.1</i>                | <i>-51.77</i>       |
| <i>23 March 2019</i>    | <i>43.39</i>               | <i>-31.1</i>        |
| <i>20 April 2019</i>    | <i>51.44</i>               | <i>-43.39</i>       |
| <i>18 May 2019</i>      |                            | <i>-51.44</i>       |

*The payment in February 2019 is the combined minimum payments from the 29 December 2018 and January 2019 statements, as the preceding payment had been missed. I cannot see Miss G made the overpayment Shop Direct referred to.*

*I have also considered the information Shop Direct gathered from external credit reference agencies. As our Investigator noted, I think this showed signs Miss G was experiencing financial stress in May 2019 – when Shop Direct offered the limit increase that went into place in June 2019. It showed that her accounts had all only been fully up to date in four out of the preceding twelve months, and that during the same period she was using an average of 93% of the credit limit available to her. I think this indicates sustained financial stress, rather than – as Shop Direct has said – occasional late payments.*

*Overall, I do not think the checks Shop Direct were proportionate to the level of credit it offered, given Miss G's level of income and also the signs of financial stress I've outlined above. I think Shop Direct should have asked Miss G for a declaration of her income and expenditure before offering the credit limit increase.*

*Miss G has provided copies of her bank statements from the months preceding the credit limit increase, which I've considered to determine what Miss G likely would have told Shop Direct about her income and expenditure at the time. Miss G's bank statements showed that her average income at that time was just over £2,000. Her average essential living expenses (such as food, insurances and utilities) were around £350. Miss G's payments towards fixed credit commitments – such as personal loans – were around £658. Sustainable repayments towards her existing revolving credit balance elsewhere of around 5% - allowing her to repay the interest and some of the capital – would have been around £280.*

*That would mean that Miss G had around £710 disposable income. Sustainable repayments towards the proposed new £1,500 credit limit with Shop Direct would be around £75. So, on the face of it, the new proposed credit limit appeared to be affordable for Miss G.*

*So, overall, I think that if Shop Direct had conducted proportionate checks it would have found that the higher credit limit would have been sustainably affordable for Miss G. Accordingly, I think Shop Direct's offer is a fair way to resolve Miss G's complaint."*

Both parties accepted my provisional decision. So having reviewed the full file again, I see no reason to depart from my provisional findings.

### **Putting things right**

I think Shop Direct's offer is a fair way to resolve Miss G's complaint.

### **My final decision**

My final decision is that I uphold this complaint. To put things right, Shop Direct Finance Company Limited should:

- Rework the account, removing all interest and charges incurred on balances of over £1,500.
- If the reworks result in a credit balance, this should be refunded to Miss G along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Shop Direct should also remove all adverse information regarding the account from Miss G's credit file.
- Or, if after the rework there is still an outstanding balance, Shop Direct should arrange an affordable repayment plan with Miss G for the remaining amount. Once Miss G has cleared the outstanding balance, any adverse information recorded in relation to the accounts should be removed from her credit file.

\*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest. It must give Miss G a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 22 April 2024.

Frances Young  
**Ombudsman**