

The complaint

Mr D complains that Shop Direct Finance Company Limited trading as very irresponsibly increased his credit limit on his running account credit agreement. Mr D says he couldn't afford the increases.

What happened

Shop Direct granted Mr D a running account credit agreement in October 2012 with a limit of £600. Mr D's credit limit was increased a total of ten times. The dates and credit limit increases are below:

Date	Credit Limit (£)
03/11/2012	600
23/03/2013	800
05/10/2013	1,100
30/11/2013	1,400
28/12/2013	1,700
22/02/2014	2,000
22/03/2014	2,300
12/07/2014	2,700
24/01/2015	2,950
13/04/2019	3,250
15/04/2019	3,750

When Mr D complained to Shop Direct, it didn't uphold any aspect of his complaint and so he referred it to the Financial Ombudsman Service where one of our investigators looked at what both parties said. Mr D was specific that his complaint wasn't about the initial decision to grant him the account but about the subsequent decisions to increase his limit.

Our investigator concluded that Shop Direct shouldn't have increased Mr D's limit beyond £2,000 as further checks would have shown he was likely to struggle to keep up with his payments, given his increased credit commitments from that point.

Shop Direct accepted the investigator's findings but Mr D didn't, he said he couldn't afford any of the credit limit increases. Mr D asked for an ombudsman 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.

Before lending to Mr D, Shop Direct needed to complete proportionate affordability checks to ensure the lending would be affordable and sustainable for him. It also needed to do this each time it sought to increase his credit limit. There isn't a set or prescribed list of checks it needed to complete each time, as what is considered proportionate will vary with each lending decision. In deciding what was proportionate, Shop Direct needed to take into account things such as (but not limited to): the amount of credit, the cost of credit,

the size of any regular repayments and Mr D's specific circumstances.

Shop Direct has only been able to provide its checks from the initial account opening, Mr D's account statement and its final response to the complaint. So, I haven't seen any evidence of any checks it carried out before any of the credit limit increases. Based on this, I can't say its checks prior to agree any of the credit limit increases were reasonable.

Mr D has provided copies of his bank statements from around the time of the limit increases and in the absence of evidence of checks by Shop Direct, I consider it reasonable to place weight on Mr D's bank statements from the time as it is a good representation of what his financial circumstances were.

From what I can see from Mr D's bank statements, he received a weekly income from his employer and working tax credit. I can also see a regular credit for child tax credit which he said belonged to his partner as she didn't have an account. I'm mindful Mr D has said he was solely responsible for the finances of his family as his partner didn't work at the time. I think in the circumstances, it's reasonable to assume some of the income his partner received was used towards their joint household expenses, and so Mr D likely benefitted from that income.

In any event, even without taking the payments to his partner into account and having considered Mr D's bank statements, I can't see there were obvious signs of financial difficulties and that Shop Direct shouldn't have given him any of the credit limit increases. From what I can see, Mr D had regular income and his credit commitments for most of the relevant period were low. For a period, his only credit commitment was repaying Shop Direct. Mr D's Shop Direct statement shows he largely made his repayments on time and in many instances made more than his minimum payment. From the bank statements I've seen, Mr D's essential expenses for things like rent and utility bills weren't excessive and he also had discretionary expenses.

Mr D used his overdraft facility, but I can also see he wasn't in his overdraft throughout the relevant time as his account went into credit as well, I don't think the way he used his overdraft here suggested he was in financial difficulties. I'm also mindful that Mr D never reached or exceeded his credit limit balance. When Mr D's credit limit was increased in March 2013, he had £0 due to repay on his account from the previous month. Shop Direct has argued that it didn't consider Mr D's credit limit increase above £2,700 as Mr D's use of the account never exceeded this amount prior to his complaint. I find this to be reasonable as Mr D didn't suffer any detriment as a result of increases beyond £2,700.

Mr D's credit commitments increased in January 2014 as I can see he took a loan of over £7,000 at the end of January 2014. I think that had Shop Direct carried out proportionate checks before increasing his limit in March 2014, it is likely to have found Mr D would struggle to sustainably manage the credit, when considering his income, living costs and other credit commitments.

While I appreciate my findings will likely disappoint Mr D as I can see he feels strongly about the earlier credit limit increases, based on what I've seen on the case, I don't think the earlier credit limit increases were unfair and I hope my explanation helps him understand why I've reached these conclusions.

Overall, I don't think Shop Direct did enough before agreeing any of the credit limit increases. I think that had it done proportionate checks, it'd likely would have found that its decision to increase Mr D's credit limit was reasonable until March 2014. Shop Direct shouldn't have increased Mr D's credit limit after February 2014 and it needs to put things right.

Putting things right

- Re-work account as if the limit had never been increased above £2,000. This means refunding any interest (including buy-now-pay-later interest), fees, charges and insurances (not already refunded) that were charged because of the balance exceeding £2,000.
- If the re-work results in Mr D having paid back more than he borrowed, then any overpayments should be refunded to him. Shop Direct should add 8% simple interest per year on any refund from the date of each overpayment to the date of settlement. It should also remove any adverse information it has recorded on his credit file since March 2014.
- Or, if after the re-work there is still a balance outstanding, then Shop Direct should agree an affordable repayment plan with Mr D for the outstanding amount. Once Mr D has repaid the capital Shop Direct should remove any adverse information it might have recorded on his credit file since March 2014.

If Shop Direct considers tax should be deducted from the interest element of my award, it should provide Mr D with a certificate showing how much it has taken off so he can reclaim that amount if he wishes to do so.

My final decision

For the reasons given above, I uphold Mr D's complaint in part and direct Shop Direct Company Finance Limited trading as very to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 4 October 2024.

Oyetola Oduola
Ombudsman