

The complaint

Mrs S complains that Shop Direct Finance Company Limited ("Shop Direct") lent to her irresponsibly through her catalogue shopping account. She says the lending was unaffordable for her.

What happened

In December 2017, Mrs S opened a Littlewoods catalogue shopping account with Shop Direct. The credit limit changed as follows:

Littlewoods account	Date	Existing limit	Change	New limit
opening	December 2017	-	£1,050	£1,050
1	January 2019	£1,050	£300	£1,350
2	April 2019	£1,350	£300	£1,650

In June 2019, Mrs S opened a Very catalogue shopping account with Shop Direct. The credit limit changed as follows:

Very account	Date	Existing limit	Change	New limit
opening	June 2019	-	£1,000	£1,000
1	September 2020	£1,000	£1,000	£2,000
2	December 2020	£2,000	£300	£2,300
3	May 2021	£2,300	£300	£2,600
decrease	August 2021	£2,600	-£1,950	£650
4	December 2021	£650	£225	£875
5	April 2022	£875	£250	£1,125

The decrease in August 2021 was at the request of Mrs S. In October 2022, both accounts entered into a sustained period of arrears.

In March 2023, Mrs S complained to Shop Direct, through a claims management company ("CMC"), that the lending was irresponsible and/or unaffordable and that Shop Direct should not have lent to her.

Shop Direct responded on 15 August 2023 to reject the complaint. Shop Direct said that it had carried out proportionate checks when agreeing to provide credit to Mrs S, including before each credit limit increase. And that the credit provided was appropriate.

Unhappy with this, on 11 January 2024, Mrs S referred the complaint to the Financial Ombudsman Service. Our investigator thought that the complaint should not be upheld. Mrs S disagreed, so I've been asked to make a decision on the complaint. Her CMC said

that Shop Direct had assumed Mrs S's income was higher than it actually was, and that at one stage her total borrowing exceeded her annual income.

Mrs S and Shop Direct both responded to indicate they accepted my provisional decision. So, my final decision is in line with that.

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.

I've decided to uphold this complaint – from the December 2021 increase onwards. I'll explain my reasons and what Shop Direct needs to do to put things right.

Shop Direct will be familiar with all the rules, regulations, and good industry practice we consider when looking at a complaint concerning unaffordable and/or irresponsible lending. So, I do not consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

When lenders look at any application to borrow money or it significantly increases a credit limit, they need to make sure there are proportionate checks in place. The checks should ensure that any credit that's offered is affordable and sustainable for the borrower.

There's no set list of checks a lender must complete, so I've thought about whether the checks completed by Shop Direct were, in my opinion, proportionate and reasonable based on the credit limits it provided, and whether Shop Direct's lending decisions were reasonable bearing in mind what Shop Direct knew or ought to have found out about Mrs S's circumstances.

Littlewoods account opening

Date	Existing limit	Change	New limit
December 2017	-	£1,050	£1,050

At the initial application, Shop Direct looked at the information Mrs S had supplied alongside Credit Reference Agency (CRA) data. Given the initial credit limit provided and Mrs S's income at that time, I think this was proportionate.

I'm satisfied the information available to Shop Direct indicated that a credit limit of £1,050 was reasonable. There was no indication that Mrs S was struggling to keep up with repayments on her existing credit accounts, that she was in financial difficulty, or that she would not be able to afford the credit Shop Direct was providing.

Littlewoods credit limit increase 1

Date	Existing limit	Change	New limit
January 2019	£1,050	£300	£1,350

Taking into account Mrs S's income, the size of the credit limit increase, and the overall credit provided, I'm satisfied that the checks carried out were proportionate. This involved looking at Mrs S's management of her account alongside CRA data. Again, there was no indication that Mrs S was struggling to keep up with repayments on her existing lending, that

she was in financial difficulty, or that the additional credit Shop Direct was providing would be unaffordable for her.

Littlewoods credit limit increase 2

Date	Existing limit	Change	New limit
April 2019	£1,350	£300	£1,350

By this stage the credit limit had almost doubled from the original limit. Mrs S had also failed to make her minimum repayment in two of the previous five months – albeit this was rectified by the following statement. Bearing this in mind, as well as the cumulative increases and overall limit being provided, I think Shop Direct ought to have done more checks before agreeing to the credit.

Mrs S has provided her bank statements for the three months prior to this increase, which gives me an idea of what Shop Direct might have found out through further checks.

From this, I can see that Mrs S had an average net income over that period of more than £1,800 per month – from her employment and various state benefits. Taking into account her income, essential spending, and overall credit repayments, including with the proposed increased limit on the Littlewoods account, I'm satisfied that the lending was affordable for her.

So, although Shop Direct could've done more before increasing the credit limit, I'm of the opinion that, had it done so, it would still have been justified in providing the credit limit increase.

Very account opening

Date	Existing limit	Change	New limit
June 2019	-	£1,000	£1,000

Looking at the credit limit and Mrs S's net monthly income at the time, which I can see from her bank statements was over £1,900 on average over the previous three months, I'm satisfied that Shop Direct did proportionate checks before providing a credit limit of £1,000. This involved looking at Mrs S's application and CRA data, as well as what it knew about her management of the Littlewoods account.

Mrs S had missed her minimum repayment twice in the previous 12 months on her Littlewoods account. However, on each occasion the payment required was £1 or less, and in between the missed minimum repayments Mrs S had been repaying enough to reduce what she owed on the account overall.

The CRA data that Shop Direct relied on overestimated Mrs S's income. But I'm satisfied that if Shop Direct had been aware of her actual income, it would reasonably have concluded that the credit limit provided was affordable for her.

With this in mind, I do not think that Shop Direct lent irresponsibly or that it should not have provided the credit that it did.

Very credit limit increase 1

Date	Existing limit	Change	New limit
September 2020	£1,000	£1,000	£2,000

Bearing in mind that the credit limit increase was significant, both relative to the existing limit and in monetary value, I think that Shop Direct ought to have done more checks than just looking at CRA data and Mrs S's management of her Shop Direct accounts.

I've looked at Mrs S's bank statements for the preceding six months and the following three months. From this I can see that her net employment income had temporarily reduced around the time of the credit limit increase (on average her total income was around £1,200 per month including from employment and state benefits in the three months immediately before the credit limit was increased). But her net income was over £1,800 per month on average in the preceding and following three-month periods. Throughout this time Mrs S remained with the same employer, and the temporary reduction may have been due to pandemic restrictions in place at the time.

If Shop Direct had asked Mrs S about her income and expenditure at that time, I think it is likely that Mrs S would have told Shop Direct about her normal income, rather than her temporarily reduced income. And based on that, it would not have been unreasonable for Shop Direct to provide the increased credit limit.

Very credit limit increases 2 and 3

Date	Existing limit	Change	New limit
December 2020	£2,000	£300	£2,300
May 2021	£2,300	£300	£2,600

The increases on these occasions were not so significant. At this time Mrs S's net monthly income had increased to over £2,000 per month. So, while Shop Direct could've done more before providing the increased credit limits, I'm satisfied that it would've reasonably concluded that the lending was affordable – taking into account Mrs S's actual income and expenditure at the time.

Very credit limit decrease

Date	Existing limit	Change	New limit
August 2021	£2,600	-£1,950	£650

In August 2021, Mrs S requested that Shop Direct reduce the credit limit on the account, and it was reduced by £1,950, from £2,600 to £650. This followed Mrs S repaying over £1,600 of what she owed on the account. And took the credit limit down to slightly more than the amount she then owed on the account. This meant Mrs S had little additional credit available to spend on her Very account at that time. It seems likely that Mrs S requested the credit limit be reduced to prevent her getting into further debt on the account.

Very Credit limit increase 4

Date	Existing limit	Change	New limit
December 2021	£650	£225	£875

At this time Shop Direct looked at CRA data and Mrs S's management of her Shop Direct accounts. The CRA data showed that Mrs S's overall indebtedness had increased significantly (due to new fixed term lending of about £20,000 since April 2021). The CRA data showed two new credit accounts opened in the previous six months. Mrs S also had an additional £7,000 credit available to her through rolling credit accounts which she was not at that time using.

Bearing in mind that Mrs S had asked Shop Direct to reduce her credit limit significantly just four months previously, her overall indebtedness had increased significantly (and was more than her total net income), I think it was irresponsible of Shop Direct to increase Mrs S's credit limit at that time.

Very Credit limit increase 5

Date	Existing limit	Change	New limit
April 2022	£875	£250	£1,125

Likewise, I think the decision to increase the credit limit again four months later was also irresponsible. At this time, the CRA data showed that Mrs S's indebtedness had increased by a further £14,000 in the previous four months, through a combination of fixed term lending and what she owed on her rolling credit accounts. Her overall debts exceeded her annual net income. And it does not seem to me like it was reasonable or responsible of Shop Direct to increase her credit limit, which would allow her to become even more indebted at that time.

Summary

I've decided to uphold this complaint in relation to Very credit limit increases 4 and 5. This means that Mrs S should be refunded any interest, fees and charges on any credit she used above the limit of £650 from her December 2021 statement onwards, with interest to compensate for the time she has been without this money.

However, I do think it is reasonable for Mrs S to repay any capital amounts she borrowed above the credit limit of £650, since she's had the benefit of that money.

When considering this complaint, I've thought about whether the relationship between Mrs S and Shop Direct might have been unfair under s.140A of the Consumer Credit Act 1974.

For the reasons I've already given, I don't think Shop Direct lent irresponsibly to Mrs S or otherwise treated her unfairly before December 2021. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome in this respect.

In respect of the lending in December 2021 (and subsequently) I'm satisfied the redress I have directed below results in fair compensation for Mrs S in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

To put things right, Shop Direct should:

- Rework Mrs S's Very account, removing all interest, fees, and charges that have been applied to balances over £650 from the December 2021 statement onwards.
- A. If the rework results in a credit balance, this should be refunded to Mrs S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement and
 - I. Shop Direct should remove any adverse information about the account from the information held by Credit Reference Agencies.
 - B. If after the rework there is still an outstanding balance, Shop Direct should arrange an affordable repayment plan with Mrs S for the remaining balance and
 - I. Shop Direct should ensure that information held by Credit Reference Agencies about the account accurately reflects the state of the account following the rework.

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

My final decision

For the reasons I've explained, I uphold this complaint. Shop Direct Finance Company Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 19 August 2024.

Phillip Lai-Fang
Ombudsman