

The complaint

Miss M complains that Shop Direct Finance Company Limited trading as very was irresponsible in its lending to her. She wants all interest paid on her account refunded and the default applied to her credit file removed.

What happened

Miss M was provided with a Shop Direct account in July 2017 with an initial credit limit of £300. The credit limit was increased to £800 in October 2018 and then to £1,100 in June 2019. The credit limit was then decreased to £725 in February 2020. Miss M said that the credit limit increases were applied to her account without her asking for these and she believed insufficient checks were carried out before the lending was provided. She explained that she was on a low salary and was struggling financially at the time and Shop Direct would have known this had adequate checks taken place.

Shop Direct issued a final response dated 2 August 2024. It explained that the account was opened more than six years before Miss M raised her complaint and it was only considering lending decisions made within the six-year period. It noted that Miss M's credit limit was increased beyond £800 but that her balance didn't exceed £800. Therefore, it said that any additional credit limit increase beyond £800 didn't cause her any detriment or financial loss. It said the credit limit increase to £800 took place after an assessment of Miss M's account and it didn't accept that it had lent irresponsibly.

Shop Direct said that Miss M made her last payment towards her account in November 2019 and that its Customer Arrears Support Team tried to contact Miss M while she was in arrears, but she didn't engage with this.

Shop Direct didn't uphold Miss M's complaint.

Miss M wasn't satisfied with Shop Direct's response and referred her complaint to this service.

Our investigator noted the checks that Shop Direct had said were carried out but also that due to the time that had passed not all of the information gathered was available. Therefore, he couldn't say whether the checks were proportionate and so he considered what proportionate checks would likely have shown. He looked at Miss M's bank statements for the months leading up to the credit limit increases and he didn't think that these showed the lending to be unaffordable.

Miss M responded to our investigator's view. She noted our investigator's comment about Shop Direct being unable to provide evidence of adequate checks and said that the evidence she had provided – specifically her bank statements – showed that adequate checks would have shown the lending to be unaffordable. She noted that when the credit limit increase took place in June 2019, she was £1,500 overdrawn. She said that from March 2018, her rent was around £800 and her income £1,400 (increased to £1,550 in 2019). She said this left her with limited disposable income to meet her living expenses before any additional credit commitments. She believed that by failing to carry out adequate checks,

Shop Direct had not acted in line with the guidelines for responsible lending.

Miss M challenged the default that had been applied to her credit file. She said that Shop Direct initially applied a default, but this was removed when the new owner of the debt said the default notice hadn't provided sufficient time for Miss M to remedy the situation. The new debt owner then sent her a second default notice which she said shouldn't have been sent as she was making payments in line with her payment plan. She said there was inconsistency between Shop Direct and the new debt owner's actions in regard to the default removal.

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.

Miss M has complained about the credit limit increases applied to her account and the default added to her credit file.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Two credit limit increases were applied to Miss M's account, the first in October 2018 and the second in June 2019. Shop Direct has confirmed that Miss M's account didn't exceed the £800 credit limit applied in October 2018. Therefore, as the additional credit applied to the account in June 2019 (and in place until the credit limit reduction in February 2020), wasn't used, I cannot say it has caused Miss M any financial detriment and so I have not considered that limit increase any further.

Miss M's credit limit was increased from £300 to £800 in October 2018. Given this increase was within a year of the account being opened, I find it reasonable that the information gathered at account opening would be considered alongside the information about Miss M's account management.

Before Miss M's account was opened Shop Direct gathered information about her gross salary and household income, residential status and it carried out a credit check. The data recorded shows Miss M to have a gross income of £16,001 with household income of £38,501 and to be renting privately. The credit data from the time is limited but does note a default being recorded which could raise concerns. Based on what I have seen I do not find there is enough to show that a clear picture of Miss M's finance was obtained and so I cannot say that proportionate checks took place.

I have therefore considered what would likely have been identified through proportionate checks. While I do not find that that Shop Direct was required to request copies of Miss M's bank statements, I have looked through these to understand the information that would likely have been identified had reasonable checks taken place.

Looking through Miss M's bank statements from the time, these show her to be receiving around £2,000 a month income (combination of salary and benefits). She was paying £850 a month for rent and also making payment for other credit commitments, utilities and

communications contracts. But based on these, I do not find that the credit limit increase to £800 would have been unaffordable. The credit data from the time didn't raise concerns about how Miss M was managing her credit commitments and I do not find that her account management in the months leading up to the increase raised any concerns. Therefore, I do not find that I can say Shop Direct was wrong to provide the credit limit increase to £800 in October 2018.

Miss M has also complained about the default applied to her credit file. Miss M's debt was transferred to an external debt collection agency. While I note Miss M's comment about the actions of the debt collection agency, I cannot hold Shop Direct responsible for these. I have therefore looked at the information provided in regard to the actions taken by Shop Direct in applying a default. Shop Direct has said that Miss M's account entered a period of sustained arrears in January 2020 and her credit limit was reduced in February 2020. Miss M's account was put into Shop Direct's collections process and a default notice was issued on 8 June 2020. A default was recorded, and Miss M's debt was transferred to an external debt collection agency in July 2020.

Miss M has provided a copy of a letter from the debt collection agency saying that the default notice issued by Shop Direct was invalid and an opportunity to correct this was provided. Miss M didn't meet the terms of the offer and the default remained in place. Miss M has said that Shop Direct removed the default, but the debt collection agency continues to record this. While I appreciate the points Miss M has raised, I do not find that Shop Direct was wrong to follow its collections process given the status of Miss M's account and as a remedy for the issue raised with the initial default notice was offered, I do not find that I can say Shop Direct is required to do anything further in regard to this issue.

Taking everything into account, I do not uphold this complaint.

I've also considered whether Shop Direct acted unfairly or unreasonably in some other way given what Miss M has complained about, including whether Shop Direct's relationship with Miss M might have been viewed as unfair by a court under Section 140A Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Shop Direct lent irresponsibly to Miss M or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 10 February 2025.

Jane Archer
Ombudsman