

The complaint

Mr V complains that Shop Direct Finance Company Limited (SDFCL) was irresponsible in its lending to him. He wants all interest and charges applied to his account refunded along with 8% simple interest and any adverse information recorded about his agreement removed from his credit file.

Mr V is represented by a third party but for ease of reference I have referred to Mr V throughout this decision.

What happened

Mr V was provided with a credit agreement by SDFCL in October 2021. He said that he had other credit commitments outstanding at the time including loans he had taken out shortly before this application. Mr V said that adequate checks weren't carried out to ensure the lending was affordable for him.

SDFCL issued a final response dated 20 May 2024. It said that Mr V was provided with a credit account in October 2021 with a credit limit of £600 and this was never increased. It said that proportionate checks were undertaken before the account was provided based on the information Mr V provided in his application and information obtained from the credit reference agencies. It didn't accept that it had lent irresponsibly.

Mr V referred his complaint to this service.

Our investigator considered the information gathered and found that Mr V was managing his existing commitments well at the time of his application. They said the credit limit provided wasn't high and noting Mr V's income they didn't think there was anything to suggest the credit was unaffordable.

Mr V didn't accept our investigator's view. He said that not being in arrears on his account for nine months wasn't that long and he had three defaults which, while historic, needed to be considered. He said he had existing debt totalling £16,000 and had exceeded his limit on his other accounts which didn't support the suggestion he was managing his accounts well. He said that further checks should have been undertaken to get a clear picture of his circumstances.

As a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman to issue a 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.

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.

Before the credit was provided, SDFCL gathered information about Mr V's employment, income, residential status, dependents and carried out a credit check. Mr V declared an annual gross salary of £34,501 and there was also additional household income recorded. He said he was working full time, was renting and had three dependents. His income was validated, and no issues raised.

The credit check recorded no accounts currently in default, no arrears for nine months and Mr V's accounts being up to date. It showed Mr V had £11,572 outstanding on fixed term loans and total unsecured debt of £13,783.

Given the amount of credit being provided and the repayments required compared to Mr V's income and noting his credit report didn't suggest he was experiencing issues managing his credit commitments at the time, I consider the checks undertaken were reasonable. I note Mr V's comment that he had three defaults recorded on his credit file, but these were historic (the most recent default date prior to the application was May 2019). Therefore, I do not find that these meant the lending shouldn't have been provided, particularly as the credit check showed Mr V was up to date with his accounts at the time of his application.

Mr V has also noted that there were arrears last recorded nine months before his application and that he had accounts over their limits. While I have said that I think the checks SDFCL undertook were reasonable, given Mr V's comments I have looked at the copy of the credit report he has provided. Having done so, I can see that he had missed a payment on an account in January 2021, but this was then brought up to date. I note the other comments made about being over his limit, but his accounts weren't showing missed payments and based on the data recorded, I do not find that this raised any serious concerns about Mr V's ability to maintain his credit commitments in the months leading up to the SDCFL credit being provided.

Taking everything into account, I think the checks carried out by SDFCL before the credit was provided were reasonable and I do not find the information received through these raised concerns that meant further checks were needed or that the lending shouldn't have been provided. Considering Mr V's income compared to the amount he would have needed to repay under this agreement, and given the other information provided, I do not find I can say that the lending was unaffordable for him. Therefore, I do not uphold this complaint.

I've also considered whether Shop Direct acted unfairly or unreasonably in some other way given what Mr V has complained about, including whether its relationship with him might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think SDFCL lent irresponsibly to Mr V or otherwise treated him 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 Mr V to accept or reject my decision before 14 March 2025.

Jane Archer
Ombudsman