DRN-5635109

The complaint

Ms D complains that Shop Direct Finance Company Limited trading as Very (SDFC) acted irresponsibly by agreeing to a revolving credit facility and subsequent credit limit increases.

What happened

In November 2020 Ms D applied for a revolving credit facility with SDFC. Her application was successful and SDFC provided Ms D with a credit limit of £750. SDFC increased Ms D's credit limit incrementally over the following years. In November 2021 by £500 to £1,250. In May 2022 by a further £500 to £1,750. In November 2022 by £1,000 to £2,750. In July 2022 by £500 to £3,250. And in May 2024 by £600 to £3,850.

Ms D complained to SDFC saying they hadn't properly checked whether she could afford the credit they'd given to her. If they had they would have seen the lending wasn't affordable as she already had a high level of debt. And that she was using credit to sustain her other credit commitments.

SDFC said their checks had been proportionate and reasonable, and that each of the lending decisions they'd made were fair as Ms D had sufficient disposable income to sustain her repayments.

Ms D wasn't happy with SDFC's response and referred her complaint to us.

Our investigator said SDFC's checks for the initial lending and credit limit increases to £1,750 were proportionate. But they should have done more when they'd increased Ms D's credit limit further. But had SDFC done further checks they said it was most likely SDFC would have still lent to Ms D as these showed Ms D had sufficient income to sustain the repayments.

Ms D disagreed and 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.

I appreciate my decision will be a disappointment to Ms D. But having done so I'm not upholding her complaint. I'll explain why.

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 before SDFC offered the account and subsequent credit limit increases they needed to complete reasonable and proportionate checks to be satisfied Ms D would be able to repay the debt in a sustainable way.

In deciding what was proportionate SDFC needed to consider things such as (but not limited to): the amount of credit, the size of any regular payments (taking into consideration the rules and guidance in CONC relating to assumptions concerning revolving credit), the cost of credit and the consumer's circumstances.

What's important to note is that Ms D was being provided with a revolving credit facility rather than a loan. Unlike a loan where there is generally a fixed weekly/monthly amount to be repaid, a revolving credit account repayment will be based on the monthly transactions and any outstanding balance. SDFC was approving an initial credit limit of £750. While it was revolving credit with no set amount that needed to be repaid each month, CONC requires a lender to assume when carrying out their assessment that the entire credit limit is drawn down at the earliest opportunity and repaid in equal instalments over a reasonable period. So, I think SDFC could have reasonably assumed Ms D would need to be able to sustain a monthly repayment of around £38 to settle the balance within a reasonable period.

CONC also requires a lender to take reasonable steps to estimate a consumer's income and expenditure, to assess whether the lending is affordable for them. CONC says a lender shouldn't solely rely on the income declared by the consumer but seek verification through an independent source such as a credit reference agency (CRA) or a third party. I've considered the checks SDFC did.

SDFC said they used Ms D's application data and cross checked this against CRA data. Ms D declared she worked full time, lived in rented accommodation with one dependent. With an annual salary of £30,501. SDFC's checks showed Ms D had nine active credit commitments, of which four were credit cards. Her total unsecured debt was £6,950 of which she was utilising more than 90%. Ms D CRA check also showed it'd been 28 months since she'd had a default registered on her account. The report showed her active accounts were all being managed well, being up to date with no missed payments.

It may help to explain here that, while information like a default on someone's credit file may often mean they're not granted further credit – it doesn't automatically mean that a lender won't offer borrowing. Here, SDFC considered the information that Ms D had on her credit file, and this showed her financial situation had improved and that the default would be considered as historic.

So, I'm satisfied the checks SDFC did were reasonable and proportionate for the type and amount of credit they were providing. And I don't think that there was anything immediately obvious in the information that SDFC had, including Ms D's existing credit, which meant they shouldn't rely on it. So, I don't think SDFC needed to have asked Ms D to provide further evidence in support of her expenditure before providing her with a credit limit in this instance. And based on these checks their lending decision was fair as Ms D should have had sufficient income to sustain the repayments.

In November 2021 SDFC increased Ms D's credit limit by £500, thereby, should she draw down the full amount, an additional credit commitment of £25. SDFC checked Ms D's credit history. This now showed she'd three credit cards with a total indebtedness of £6,000 of which she was using 25%. Again, there weren't any signs of financial vulnerability. SDFC also had their own internal data that showed how Ms D was managing her account with them. This showed Ms D was managing her account well regularly paying more than the required minimum payment each month, which showed an additional £25 a month was sustainable.

In May 2022, Ms D's credit limit was increased by a further £500 thereby, should she draw down the full amount, an additional credit commitment of £25. SDFC carried out similar checks. While Ms D's credit card usage had risen to around 39%, she was still managing her accounts well. And for her SDFC account she was paying more than the minimum required.

The month prior to the credit limit increase Ms D had a zero-closing balance, but had transactions through a Buy Now Pay Later (BNPL) option.

So, for both these credit limit increases I'm satisfied the checks SDFC did were reasonable and proportionate for the type and amount of credit they were providing. And I don't think that there was anything immediately obvious in the information that SDFC had, including Ms D's existing credit, which meant they shouldn't rely on it. So, I don't think SDFC needed to have asked Ms D to provide further evidence in support of her expenditure before providing her with a credit limit in this instance. And based on these checks I think the lending decisions were fair as I haven't seen any evidence to show Ms D wouldn't have been able to sustain the repayments.

In November 2022 SDFC increased Ms D's credit limit by £1,000, if fully drawn down this would mean an additional £50 a month. SDFC checked Ms D's credit history which showed she still had three credit cards, her utilisation had increased to around 44%. I can also see her overall indebtedness was showing as £14,300, and that she'd been in arrears for one month. So, I think SDFC should have looked further into Ms D's financial situation before lending further to her, as there were signs of increased indebtedness and potential financial vulnerability.

This doesn't automatically mean SDFC shouldn't have lent to Ms D only that they should have checked further. So, I've considered the information SDFC could have seen if they had done this. While I wouldn't expect lenders to always ask for bank statements, for our purposes these are a good indicator of what Ms D's financial situation was at the time of the lending.

Ms D has provided her bank statements for the three months prior to the credit limit increase in November 2022. These show Ms D had a regular salaried income; she also had other regular benefit income paid into her account. I can see she was meeting her non-discretionary commitments without any signs of financial vulnerability, such as unpaid direct debits or any use of an overdraft. And she'd sufficient disposable income each month to sustain her repayments to SDFC as well as for discretionary and unexpected costs. So, I'm satisfied had SDFC checked further they would have still agreed to lend to Ms D as she should have been able to sustain her repayments.

I've gone on to consider each of the lending decisions up to and including the credit limit increase to £3,850. Ms D has provided her bank statements for the three months prior to each lending decision. And I find as above Ms D had a regular salaried income, other regular benefit income, maintained her non- discretionary commitments without signs of financial distress. She'd sufficient disposable income to be able to sustain her repayments to SDFC and settle her balance within a reasonable period. As well as having sufficient disposable income to cover for discretionary and unexpected costs.

I take on board Ms D's comments about struggling to meet her repayments, saying she was using her credit cards to meet her commitments. And that she was only making minimum repayments. But having considered SDFC's records of how she managed her account I can't see Ms D struggled with her repayments. From account inception up to when the last credit limit increase in May 2024 Ms D had paid more than she was required to do. From SDFC's records Ms D generally made her repayments by debit card. I can only see Ms D paid by credit card on two occasions for the period I'm considering, and which seem to be when her BNPL option was ending. From July 2023 to April 2024 Ms D's closing balance was zero. I haven't seen any charges applied for missed payments or over the limit fees.

I can see that Ms D had BNPL transactions but for the period of the credit limit increases I can see these were settled when they fell due, which meant she didn't incur any interest charges on her SDFC account.

Having considered the evidence provided I'm satisfied that SDFC acted fairly in agreeing to open a revolving credit account for Ms D and by increasing her credit limit incrementally to £3,850. I haven't seen any evidence that at the time of each lending decision Ms D wouldn't have been able to sustain her repayments.

Although I think SDFC acted fairly in their lending decisions, I can see around late November 2024, that Ms D wasn't able to settle her BNPL transactions before interest was applied. I'd like to remind SDFC of their obligations to exercise forbearance if they intend to collect any outstanding balance remaining on the account and it's the case that Ms D is now experiencing financial difficulty.

I've also considered whether SDFC acted unfairly or unreasonably in some other way given what Ms D has complained about, including whether their relationship with her might have been viewed as unfair by a court under Section 140A Consumer Credit Act 1974. But for the reasons I've already given, I don't think SDFC lent irresponsibly to Ms D or otherwise treated her unfairly. I haven't seen anything to suggest that s140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or reject my decision before 10 November 2025.

Anne Scarr
Ombudsman