

The complaint

Miss M complains Shop Direct Finance Company Limited trading as Very (Shop Direct) irresponsibly lent to her because it didn't carry out reasonable and proportionate checks to ensure the lending was affordable for her.

What happened

Miss M opened a catalogue account with Shop Direct in August 2019 with an initial limit of £750. Shop Direct increased the limit on the following occasions:

Date	Credit limit increase (CLI)	New credit limit
25 February 2020	CLI 1	£1,050
27 July 2020	CLI 2	£1,100
6 February 2021	CLI 3	£1,600
6 August 2021	CLI 4	£2,100
13 April 2021	CLI 5	£2,500
1 February 2023	CLI 6	£3,000

Miss M subsequently requested a decrease in the credit limit to £500 in July 2023 and to £100 in December 2023.

Miss M complained to Shop Direct on 6 August 2024. She said she should not have been provided with the credit because proper checks would have shown her debts were increasing and she was constantly in her overdraft. The credit made her situation worse, and Shop Direct should have offered her forbearance by freezing the interest on the credit account.

Shop Direct responded to the complaint on 5 September 2024. It said the data it obtained supported its decision to accept Miss M's application and it was satisfied proportionate checks would have been completed at the time. It also said it was fair for it to increase Miss M's limit based on the information obtained.

Miss M remained unhappy and asked our service to investigate. Our Investigator felt the third credit limit increase provided by Shop Direct hadn't been reasonable and explained how she felt Shop Direct should put things right. Shop Direct accepted our Investigator's findings. However, Miss M didn't. In summary she said:

- She took out a significant amount of short-term and high-cost lending before being provided with the account. Between May and August 2019, she took out multiple short-term loans from high-cost lenders. Additionally, a month before she opened the account, she desperately took out a credit card. This shows she was reliant on credit and high-cost borrowing. She has provided screenshots, and said her credit file demonstrates her reliance on credit at the time.
- She was in a situation where she was not managing her finances, and her borrowing was too high. She borrowed from high-cost lenders to pay for necessities. Opening

an additional account was not fair and worsened her financial position. This is because not long after opening the account, she took out further credit.

- She requested a lower limit in July and December 2023 because she felt the credit was too much and the interest too high. She was able to lower the limit after consolidating the debt.
- She does not believe her £2,491 a month salary was sufficient to pay back the £750 credit limit. This is because she already had a high cost of living, was paying back over £12,000 worth of debt and was also paying for payday loans. She said our Investigator did not address her outgoings and whether it was viable for her to pay back £750 sustainably.
- Whilst she didn't have markers or arrears on her accounts, it doesn't mean she was managing her finances. She was unable to have markers on her credit report because it meant she could lose her job. She has questioned why our service thinks this is an acceptable way to determine someone's financial situation. It just meant she paid her debts and bills first, then had nothing left over for the month and had to borrow more.
- The Lending Code states that someone with over 25% debt to income ratio might be over indebted. She had around 30% debt to income ratio at the time of applying. This combined with the non-stop payday loans meant the credit provided by Shop Direct wasn't sustainable or affordable.
- There were clear signs she was struggling, and she doesn't feel she is being taken seriously by our service. These were the worst years of her life, and her mental health was at its worst. Her reliance on payday loans shows this and Shop Direct made her financial situation worse.
- The redress is very low considering she had the account for a few years, the interest rate was high and given the level of credit she was utilising.

As Miss M didn't agree, the complaint has been passed to me 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.

Our approach to complaints about irresponsible lending is set out on our website. In summary, there are some key questions I need to consider to decide what's fair and reasonable. This includes:

1. Did Shop Direct carry out reasonable and proportionate checks to satisfy itself that Miss M was in a position to sustainably repay the credit?
 - If so, did it make a fair lending decision?
 - If not, what would reasonable and proportionate checks have shown at the time?
2. Did Shop Direct act unfairly or unreasonably towards Miss M in some other way?

Shop direct had to carry out reasonable and proportionate checks to satisfy itself that Miss M

would be able to repay the credit sustainably. It's not about Shop Direct assessing the likelihood of being repaid, but it had to consider the impacts of the repayment on her. I've thought about these questions for the account opening and the credit limit increases.

There is no set list of checks that it had to do, but it could take into account several different things such as the amount and length of the credit, the amount of the monthly repayments and the overall circumstances of the borrower. What's important to consider is that this was running account credit which meant there was no fixed time in which the borrowing needed to be paid off. When carrying out an affordability assessment, Shop Direct needed to consider whether Miss M could sustainably afford to repay the total balance within a reasonable period.

Account Opening – August 2019 - £750

The initial credit limit provided was relatively modest and Miss M would only need to pay a small amount each month in order to repay the total balance within a reasonable period. So, this is what I've thought about when considering the checks carried out.

Shop Direct completed a credit search through a credit reference agency (CRA). It showed Miss M had a total live credit limit of £6,000, active loans and communication accounts. It showed a number of active accounts, but all of her accounts were up to date with no arrears in the last 24 months. The checks showed she had no accounts currently in default and no county court judgments (CCJs). Whilst Miss M did have a number of active accounts, I don't think there was anything from the search itself which ought to have indicated to Shop Direct that it shouldn't open this account.

It does seem from the information submitted by Miss M that she may have provided information about her income and household income. She has provided us with a screenshot showing this and it seems she declared income of £50,001+. Shop Direct didn't provide this information in its submission to our service so it's not clear to me exactly when Miss M provided this information or whether it took Miss M's income into account when deciding whether to lend.

Having reviewed the details Shop Direct provided about the credit search, I don't think there was anything to suggest Miss M wasn't managing her finances or that this modest limit would be unaffordable for her. It showed she was managing her finances and was likely to have been receiving some sort of income. However, I think Shop Direct ought to have obtained information from Miss M about how much she expected to earn. She had a number of active accounts including revolving credit and non-revolving credit. Without this information, I don't think it could have been sufficiently satisfied the lending was affordable.

I've considered Miss M's bank statements for the three-month period leading up to the lending decision to understand what she was likely to have declared about her income at the time. Having done so, I think she was likely to have declared around £2,491 net monthly income. Taking this into account, alongside the information Shop Direct obtained from the credit search, I think it's likely this relatively modest limit would have seemed affordable for Miss M at the time. Therefore, I'm unable to conclude Shop Direct shouldn't have provided the account.

As mentioned above, Shop Direct may have asked for income information at the time of the initial application. However, this doesn't impact the outcome of my decision because I think it would have seemed the lending was affordable in any event.

I acknowledge what Miss M has said about her actual financial situation at the time and the short-term lending she had taken out shortly before Shop Direct agreed to lend to her. She

doesn't think her income was sufficient to meet her financial commitments. She's also explained it's not fair to rely on the fact her accounts were up to date to say it was right for Shop Direct to lend. She had to keep her accounts up to date for her job security.

To explain, arrears are one thing which can indicate to a lender that a consumer might not be meeting their existing financial commitments, and more checks might be needed to ensure the affordability of any lending. There may well be other indicators outside of arrears. I accept Miss M's explanation that she was having difficulty meeting her payments and took out short term lending. When reaching my decision, I have thought about the information Shop Direct obtained and ought reasonably to have obtained.

This was a modest limit, and I don't think Shop Direct reasonably would have needed to ask further questions about her circumstances in order to have completed proportionate checks. She has explained her debt-to-income ratio was around 30%. I can also see this was reflected in information obtained by Shop Direct in September 2019 from CRAs. I understand what Miss M has said about her debt to income at the time and I've thought about the relevant regulations and guidance. However, it doesn't persuade me Shop Direct were likely to have reasonably discovered that the lending wasn't affordable given the small monthly repayments which would be necessary to repay the balance within a reasonable period. I appreciate Shop Direct didn't ask Miss M about her expenditure. But again, I don't think it needed to considering the modest amount of credit being provided here.

Although I don't think Shop Direct needed to ask Miss M about her expenditure, I appreciate how strongly Miss M feels about her complaint. So, for completeness I have thought about her essential expenditure. I have reviewed statements for the three-month period leading up to the account opening in order to consider what was likely to have been disclosed had she been asked. This includes costs towards ongoing credit commitments, regular committed payments, bills, utilities, petrol, food and so on. Having thought about this, I think it would have seemed she had sufficient income to meet her non-discretionary expenditure, and she would likely be left with sufficient disposable income to afford repayments towards a modest credit limit of £750. The lending would have seemed affordable even though Miss M had taken out short term lending. To reiterate, I don't think Shop Direct needed to ask for expenditure information in the circumstances.

I appreciate Miss M will be considerably disappointed by my conclusion here and I understand what she has said about her financial difficulties at the time. I want to assure her that I've considered everything she has said. However, weighing up all the information I have, I'm satisfied it was reasonable for Shop Direct to have provided the £750 credit limit at account opening.

CLI 1 – February 2020 - £1,050

At this time Shop Direct increased Miss M's credit limit by £300 to £1,050 and it needed to carry out reasonable checks to ensure the limit increase was affordable and sustainable. However, I would note the increase doesn't represent a large increase in the amount Miss M would need to pay each month in order to repay the total balance within a reasonable period. It is with this in mind I have reviewed the checks carried out by Shop Direct.

Leading up to the increase, Miss M managed her account with Shop Direct well. She had paid over the minimum and reduced her total balance. There were no signs of late payments or arrears, and she kept her balance below the limit. Therefore, I don't think there was anything in the way she managed the account which ought to have suggested to Shop Direct it shouldn't have lent to her or that she might have been reliant on credit. The repayment history also seemed to show Miss M could afford the increase.

It also completed a credit search which showed her total balance for active accounts had increased overall. This included revolving and non-revolving credit. I understand what Miss M has said about this being a large balance and her overall indebtedness. She had also opened new credit accounts not long before Shop Direct's decision to increase her limit. However, from the information Shop Direct obtained at the time, it seemed she was managing the repayments towards her credit. This was information taken from reputable CRAs and I think it was reasonable for Shop Direct to rely on this.

As explained above, it's unclear what information Shop Direct had about Miss M's income at the time. Having thought about the information, and for similar reasons as I've set out above, I think Shop Direct ought to have obtained more information about Miss M's income. Looking at Miss M's bank statements for the three-month period leading up to the lending, it seems her income had increased and was significantly more than when the account was opened. I think the income she received at this time would reasonably have seemed sufficient to sustainably afford the increase being offered.

Whilst Miss M had opened some new accounts in the period leading up to the lending and her overall credit balance had increased, I don't think this is enough to conclude Shop Direct shouldn't have lent to her. Based on the account management and how Miss M had been managing her existing credit, I don't think there was anything to suggest Shop Direct ought to have reasonably discovered this credit limit increase wasn't affordable or sustainable for her.

CLI 2 – July 2020 - £1,100

The credit limit was then increased by £50. This was a very modest increase and as it wasn't significant I don't think Shop Direct necessarily needed to carry out thorough checks. Nevertheless, it did obtain information from a credit search and had information about Miss M's account management.

The credit search showed she had opened three accounts in the last three months. Again, this showed information about her overall credit balance for revolving and non-revolving credit. There were no arrears, and her accounts were all up to date.

Additionally, in respect of Miss M's account management, I don't think there was anything in the way she was using her catalogue account which ought to have suggested to Shop Direct this increase was likely to be unaffordable. Having reviewed the information, I'm not able to conclude Shop Direct shouldn't have increased Miss M's limit here.

CLI 3 – February 2021 - £1,600 and later increases

I note Miss M didn't accept the view and felt the complaint should be upheld from account opening. Oodle have agreed with our Investigator's finding that the credit limit shouldn't have been increased above £1,100. Therefore, I won't go into detail here as it has not been disputed.

For clarity, I agree the limit should not have been increased from £1,100 for similar reasons as to what has been set out by our Investigator. In the circumstances and before increasing Miss M's limit by £500, Shop Direct ought to have obtained further information about Miss M's specific financial circumstances (income and essential expenditure). Had it done so, such checks were likely to have revealed indicators the credit limit increase wasn't sustainable for her. For example, Miss M was being charged for her overdraft usage and seemed to be using it for essential spend.

As I don't think the credit limit should have been increased to £1,600, it also follows that I

don't agree it was reasonable for Shop Direct to provide the later increases. The information I have doesn't indicate Miss M's circumstances had particularly improved in the time which followed. Again, this isn't a point which has been disputed so I won't go into any further detail. I will come back to how Shop Direct should put things right below.

Did Shop Direct act unfairly or unreasonably towards Miss M in some other way?

Miss M has said Shop Direct ought to have provided her with forbearance options, and it was her who asked for her credit limit to be decreased after she consolidated some of her debts. I have already set out from which point Shop Direct ought not to have increased Miss M's credit limit, and I'll explain how it should put things right below.

I appreciate Miss M took out a consolidation loan in order to consolidate her debts (including the Shop Direct account), but the evidence I have doesn't persuade me Shop Direct ought to have done more. There were no arrears and late payments, and Miss M kept her credit balance within the limit. Although she made minimum payments at times, this wasn't for such periods which ought to have prompted Shop Direct to step in. Overall, I don't think there were clear signs which should have indicated to Shop Direct Miss M was struggling to make the repayments on the account, and ought to have prompted it to do anything further.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Miss M 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

Shop Direct shouldn't have increased Ms M's credit limit above £1,100, so it's not fair for it to charge any interest or charges on any balances which exceeded that limit. However, Miss M has had the benefit of the money she has spent and it's reasonable for her to pay this back. I'm satisfied this is fair and reasonable in all the circumstances of the complaint.

Miss M has expressed concern about the amount which would be due to her. However, the account credit could be used for Buy Now Pay Later (BNPL) and pay in three purchases. This provided interest free periods and meant interest was only applied to purchases if they were not repaid within the interest free period. Miss M has been provided with a copy of her account history which shows how interest was charged.

Therefore, to put things right, Shop Direct Finance Company Limited should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £1,100 after 6 February 2021.
- If the rework results in a credit balance, this should be refunded to Miss M along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Shop Direct should also remove all adverse information recorded after 6 February 2021 regarding this account from Miss M's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,100, Shop Direct should arrange an affordable repayment plan with Miss M for the remaining amount. Once Miss M has cleared the outstanding balance, any adverse information recorded after 6 February 2021 in relation to the account should be removed from her credit file.

*If Shop Direct considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss M how much it's taken off. It should also give Miss M a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons outlined above, I'm partly upholding this complaint and Shop Direct Finance Company Limited should put things right in the way outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 30 September 2025.

Laura Dean
Ombudsman