

The complaint

Miss K complains that Shop Direct Finance Company Limited (Shop Direct) acted irresponsibly when they agreed to lend to her.

What happened

In December 2023, Miss K opened a catalogue shopping account with Shop Direct with an initial credit limit of £600. In April 2024, this credit limit was increased to £900. Miss K says that checks carried out were not sufficient and that the resulting lending was unaffordable. She says she was already showing signs of financial distress at the time of the limit increase.

Miss K also thinks the Buy Now Pay Later (BNPL) option on the account was misleading and not clearly explained. She says she was in persistent debt, as the amount of interest and charges meant she was not lowering the debt owed and doesn't think Shop Direct took steps to help. She would like the remaining balance on the account to be written off, all interest refunded, negative markers removed from her credit file and compensation for stress.

Shop Direct say they carried out proportionate checks at the time of the application and throughout the account's lifetime. They were satisfied that the credit offered was suitable and affordable based on Miss K's circumstances.

Miss K wasn't happy with Shop Direct's response and referred her complaint to us. Our investigator said that the checks carried out for the account opening and limit increase were reasonable and proportionate and that the resulting decisions to lend were fair.

Shop Direct agreed with this view, but Miss K didn't. In summary, she said that the full credit limit was a significant portion of her monthly net income. She disagreed that her credit file would have shown no concerns as she was reliant on her overdraft. She thought that if Shop Direct had asked for bank statements it would have shown she was in financial distress and could not afford the account.

Our investigator maintained their view and said that as the account was for revolving credit, the balance would not have consumed Miss K's monthly salary, as repayments are a proportion of the balance each month. They said that a debt-to-income ratio is just one factor that we would consider when finding if the lending was affordable in the circumstances. They also noted that the BNPL purchases, which incurred no interest for a period, were not immediately repayable.

Ultimately a resolution was not reached and Miss K asked for an ombudsman to decide on the matter. So, the case 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.

While Miss K has provided detailed evidence of her complaint, and I've considered all the available information, I've not reflected every point that has been raised. No discourtesy is intended here, this is merely to reflect my informal role in deciding a fair and reasonable outcome. So, I've focused on what I think are the key issues of the complaint. If there is something I haven't mentioned, it isn't because I've ignored it.

I've considered what both parties have said about Miss K's lending with Shop Direct. Having carefully considered everything, I think that Shop Direct acted fairly and reasonably. I'll explain why.

The relevant rules, regulations, and guidance at the time of Shop Direct's lending decision required them to carry out proportionate checks. While there isn't a defined list of checks a lender needs to carry out, such checks should be proportionate, considering things like the type, amount, duration and total cost of the credit, as well as the borrower's individual circumstances. These checks needed to assess Miss K's ability to afford the credit being approved and to be able to repay it sustainably, without causing her financial difficulties or harm.

It isn't sufficient for Shop Direct to just complete proportionate checks, they must also consider the information obtained from these checks to make fair lending decisions. I've considered the checks Shop Direct did and what they found from these checks.

Account opening

During the account application, Miss K declared that she worked part time with a gross annual income of £12,001, lived in rented accommodation, and had no dependents. Shop Direct used a combination of information provided in the application and data from a Credit Reference Agency (CRA) to assess affordability. CRA data found that Miss K had no recent adverse markers such as defaults or arrears within the previous twelve months or County Court Judgments (CCJs). Miss K had a low amount of existing credit of around £300 available, with a low amount of usage and all payments up to date.

Based on the circumstances, including the low level of lending and Miss K's credit file information at the time, I'm satisfied that the checks which Shop Direct carried out before opening this account were reasonable and proportionate in the circumstances to satisfy themselves that Miss K would be able to sustainably repay the borrowing.

I also have to consider if, based on the information within these checks, the information was considered fairly. Miss K was initially given a relatively modest credit limit of £600, which means she would need to pay a small amount each month in order to repay the total balance within a reasonable period. Further to this, there were various options for payments which meant it was possible for less interest to be incurred.

I don't think that the checks which were completed showed that Miss K was overindebted at this time. Although Miss K had a lower income level, taking into account all the circumstances of this case, including the modest level of lending and repayments and the lack of negative information on Miss K's credit file, I think there was enough to find that she was likely to be able to sustainably repay the lending. As such, I think the decision to lend was fair at this stage.

Credit limit increase

In April 2024, the credit limit on Miss K's account was increased to £900. Shop Direct reassessed her affordability using updated CRA data and reviewed how she was managing her existing credit with them. At the time, she had a balance of around £400 for BNPL

purchases on her Shop Direct account and had made required payments on time. I don't think there is anything on this account to indicate that Miss K was in financial difficulty.

The CRA data which Shop Direct reviewed leading up to this increase showed no recent adverse information such as defaults, CCJs, or arrears within the previous twelve months. At this point, Miss K's overall indebtedness was around £1,300. While Miss K's external credit had increased, compared to her annual income, I do not think this indicated that she was overindebted at the time. Miss K has said that she was reliant on her overdraft, however this does not on its own indicate financial difficulty and was not flagged as a concern on her credit file.

Taking into account the still relatively modest amount of lending and the management of Miss K's internal and external credit at the time, I'm satisfied that the checks which Shop Direct carried out were reasonable and proportionate in the circumstances.

Miss K was managing her existing credit well, was not overindebted compared to her annual income at the time, with no recent negative information on her credit file and the level of lending was still relatively low. There were payment options on the account that allowed for reductions in interest. Taking all of the circumstances into account, I think it was reasonable for Shop Direct to find that the credit increase was affordable and sustainable. I think that the decision to increase Miss K's credit was fair in the circumstances.

I've also taken into account what Miss K has said about the terms of her agreement with Shop Direct in relation to BNPL transactions. The terms and condition of the BNPL transactions are clear in saying that if a payment is not made in full before the end of the delayed payment period, the full interest which had been accruing would be charged. Accordingly, I am satisfied that Miss K would have been aware of this. A reminder of the payments required and due dates to avoid this interest are also given as reminders within monthly account statements. I am satisfied that Shop Direct acted within the clear terms and conditions, so was entitled to apply the interest.

It is further noted that, Shop Direct needs to act with forbearance. There's no fixed method by which this is to be achieved. As the circumstances of each individual borrower is different, a business needs to tailor their actions to take account of the customer's needs. But it is up to each business to decide what steps are taken to assist each customer. I've considered if there was anything prior to Shop Direct responding to Miss K's complaint with them that ought to have made them aware that they should have taken action here.

In September 2024 Miss K did not meet a small minimum payment, however, this was the only instance where this occurred. Throughout the account history, she had made payments far above the minimum payment due. Other than this missed payment, the payments made each month were at or above the minimum payment requested. While these payments were sometimes less than the deferred interest from BNPL which had accrued for that month, the payments being made otherwise exceeded the amount being charged for interest overall. It is also noted that the deferred interest on some transactions gave an opportunity for these repayments to be made within the terms to avoid interest.

While I would expect Shop Direct to continue to act with forbearance once learning of Miss K's financial situation, I do not think that there was enough prior to Miss K's complaint being raised that ought to have prompted Shop Direct to take further action in this regard.

In reaching my conclusions, I've also considered whether the lending relationship between Miss K and Shop Direct might have been unfair to Miss K under Section 140A of the Consumer Credit Act 1974 ("CCA"). However, for the reasons I've already explained, I'm satisfied that Shop Direct did not lend irresponsibly when providing Miss K with the credit

account or otherwise treat her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A CCA would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons given above, I do not uphold this complaint against Shop Direct Finance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 9 April 2026.

Frances Kerlake
Ombudsman