

## **The complaint**

Mr W complains that Shop Direct Finance Company Limited provided him with a catalogue shopping account, and increased the limit on it, when he couldn't afford it.

## **What happened**

In December 2018 Shop Direct approved Mr W for a catalogue shopping account with a limit of £600. This limit was increased by Shop Direct five times from July 2019 until it reached £3,900 by August 2021. It would appear that the account is in long term arrears.

After Shop Direct rejected Mr W's complaint, he brought it to this service. The investigator thought that Shop Direct hadn't done anything wrong in opening the account and increasing the credit limit on the first four occasions. But he thought that by the time of the final credit limit increase (CLI) in August 2021, Shop Direct ought to have identified that further borrowing was not affordable and sustainable for Mr W. Mr W accepted that, but Shop Direct didn't, and asked that the case be the subject of a final decision by an Ombudsman.

As there is no longer a dispute about the account opening or first four CLIs, I won't be considering them. The complaint is now solely about the increase in August 2021.

## **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.

Having done so, I'm upholding it and I'll explain why.

The investigator thought that Shop Direct should not have increased the credit limit on this account in August 2021, and I agree for broadly the same reasons.

Shop Direct is aware of its obligations under the rules and regulations in place at the time of these credit limit increases, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Mr W would be able to repay the borrowing it was making available to him in a sustainable way. As set out in CONC 5.3.1G(2) that means that he could manage the repayments,

*"...without...incurring financial difficulties or experiencing significant adverse consequences"*

Essentially, Mr W needed to be able to meet all his financial commitments and not have to borrow elsewhere to repay Shop Direct for the credit limit to be considered affordable and sustainable.

Before applying this final CLI, Shop Direct reviewed high level credit file information about Mr W, and had the benefit of knowing how he'd managed his account with it.

The investigator thought that Shop Direct had enough information to recognise that Mr W's wider financial situation was at the very least precarious when it increased his credit limit in August 2021. I agree, for the following key reasons:

- significant recent increases in unsecured borrowing;
- continued use of almost all of the credit available to him; and, significantly,
- evidence of recent missed payments on other accounts.

In response, Shop Direct has highlighted that the information showed that, despite this increase in borrowing, Mr W's monthly repayments had reduced. That does appear to be the case, but it's difficult to see how and why, and whether that was a fully positive change. For example, that could have been as a result of measures to bring his debt under control, such as an arrangement with another lender. So it isn't *de facto* an indicator of a healthy financial position. Additionally, Shop Direct has underlined that Mr W's financial situation deteriorated further following this final CLI. Presumably it is attempting to demonstrate that things weren't as bad for Mr W in August 2021 as they later became. But as there is no later CLI under consideration, that point has no bearing on my view of this case.

On the basis of the information it had available to it, I find that Shop Direct cannot have reasonably concluded that increasing Mr W's credit limit by about 50% was affordable and sustainable for him, bearing in mind the applicable regulations. It therefore follows that I uphold this complaint.

### **Putting things right**

It would appear that Shop Direct continues to own this account. However, if things have deteriorated and it has now sold any debt on, it should buy it back, and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

In order to put things right for Mr W, I direct Shop Direct to do the following:

- a) Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since 6 August 2021 on balances exceeding £2,900.
- b) Calculate what Mr W would have owed it if the credit limit had stayed at £2,900.
- c) Apply any and all repayments made by Mr W since 6 August 2021 to that adjusted balance identified in b).
- d) If that calculation means the adjusted balance would have been cleared, Shop Direct must refund any remaining sums to Mr W with 8% simple interest\*, calculated from the date of overpayment to the date of settlement.
- e) If after the adjustment an outstanding balance remains, Shop Direct must try to arrange an affordable repayment plan with Mr W. Once the balance has been fully cleared, whilst I'm not aware of any, should there be adverse information about the account on Mr W's credit file, that should be removed.

\*HM Revenue and Customs requires Shop Direct to deduct tax from any award of interest. It must give Mr W a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax..

**My final decision**

For the reasons I've explained, I uphold this complaint and direct Shop Direct Finance Company Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 27 February 2024.

Siobhan McBride  
**Ombudsman**