

The complaint

Mrs W complains that Shop Direct Finance Company Limited acted irresponsibly in offering her a catalogue shopping account that was unaffordable for her.

What happened

Mrs W opened an account with Shop Direct under its Very brand in August 2012. The credit limit was initially £750.

The limit of the account was changed as follows:

Date	Credit Limit
February 2013	£1,000
August 2013	£1,300
January 2014	£1,600
June 2014	£1,900
April 2015	£2,150
June 2015	£1,700
December 2019	£2,200
June 2020	£3,200
November 2020	£3,800
May 2021	£4,800
May 2022	£5,000
June 2023	£4,800

In 2023, Mrs W complained – via a representative – that the account had been unaffordable for her. In its final response letter, Shop Direct said it was satisfied it acted fairly in offering the account and the majority of the credit limit increases, but thought that it shouldn't have increased the credit limit from £4,800 to £5,000 in May 2022.

Mrs W was unhappy with Shop Direct's response and referred her complaint to our service. When it responded to our service about the complaint, Shop Direct told us that when Mrs W applied for each account it assessed information sourced from credit bureaus, and the limits were offered based on its findings. It said that Mrs W received periodic increases in the credit limits, and it assessed her account each time it offered an increased credit limit.

One of our Investigators considered the complaint. She thought that Shop Direct had acted reasonably in offering the initial credit to Mrs W and the increase in 2013, but she thought it shouldn't have increased the credit limit to £1,600 in January 2014 due to the level of Mrs W's credit card utilisation, and arrears elsewhere.

Mrs W accepted the Investigator's opinion about how things should be resolved. Shop Direct disagreed. In summary, it said that following the credit limit increase in January 2014 Mrs W hadn't experienced arrears for three years which it thought indicated the increase was sustainably affordable for her.

As our Investigator couldn't resolve things, the case comes 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.

I've considered the relevant rules and guidance on responsible lending set by the regulators, initially the Office of Fair Trading and from April 2014 onwards the Financial Conduct Authority, now laid out in the consumer credit handbook (CONC). In summary, these say that when Shop Direct first offered the catalogue account – and each time it offered a credit limit increase – it needed to complete reasonable and proportionate checks to satisfy itself that Mrs W would be able to repay the debt in a sustainable way, without borrowing further elsewhere. As this was an open ended account, Shop Direct also needed to consider whether Mrs W would be able to repay the debt within a reasonable period.

Account opening

Shop Direct has explained that prior to offering Mrs W the account, it assessed information from a credit reference agency to determine whether or not to lend. The information Shop Direct found showed that Mrs W's had only been up to date on her existing accounts in 14 of the preceding 24 months, and was one month in arrears on another account one month prior to the application. Shop Direct also found Mrs W had a fixed term loan balance of around £13,600.

Shop Direct has informed us that when Mrs W applied for the account, it would have recorded her income – but it no longer holds this information due to the passage of time.

As I've explained above, Shop Direct needed to conduct proportionate checks to satisfy itself that Mrs W would be able to repay the debt in a sustainable way, within a reasonable period. In this instance, Shop Direct offered an initial credit limit of £750. So, sustainable repayments of around 5% of the initial credit limit – allowing Mrs W to repay the interest charged and part of the capital if the account were utilised to its limit – would be around £37.50.

As Shop Direct no longer holds the income it says it recorded for Mrs W, I'm unable to reasonably conclude it conducted proportionate checks. I also say this as the credit checks Shop Direct conducted showed a recent history of arrears – suggesting she may have been experiencing financial stress. I think Shop Direct should have asked Mrs W to complete a declaration of her income and expenditure before agreeing to lend.

Our Investigator asked Mrs W for bank statements, but she was unable to provide them. She was, however, able to give us her recollections of her income and expenditure at the time. Mrs W told us her income at the time was around £26,000 per year – or around £1,700 per month. She's told us her essential living expenses (such as rent, utilities etc) were around £1,180. This meant Mrs W had just over £500 income to service her existing credit commitments, and as disposable income.

On balance, I think it's likely that had Shop Direct conducted proportionate checks it would have considered the account to be sustainable and affordable for Mrs W.

Credit limit increases in February and August 2013

Before offering the credit limit increase in February and August 2013, Shop Direct conducted external credit checks and considered the conduct of the account held with it.

Mrs W had missed a payment towards the account in May 2013, but made this up the next month and otherwise made her payments on time. The credit checks Shop Direct conducted showed she had a balance of around £1,300 on credit cards on each occasion, and a fixed term loan balance of around £16,500 in February 2013, reducing to around £13,500 by August 2013.

The checks also showed that Mrs W was one month in arrears on at least one account elsewhere on both occasions, and by August 2013 had been at least one month in arrears on at least one account for nine of the previous twelve months. So I think Mrs W was showing signs of financial stress.

I think this should have been a prompt for Shop Direct to conduct further checks to ensure the new credit limits were affordable. I think it should have verified Mrs W's income and expenditure, for example by considering information from her bank statements.

Our Investigator asked Mrs W for bank statements from around this time, but she wasn't able to provide them. So I'm unable to reconstruct what information Shop Direct would likely have found had it conducted further checks.

So, although I think Shop Direct failed to conduct proportionate checks prior to offering this credit limit increase, I cannot reasonably conclude that if it had done so it would have found that the new credit limit was unaffordable for Mrs W.

Credit limit increase in January 2014

Before offering the credit limit increase in January 2014, Shop Direct conducted external credit checks and considered the conduct of the account held with it. Sustainable repayments towards the new credit limit – if the account were utilised to its limit – would be around £80.

In the months leading up to the credit limit increase in January 2014, Mrs W had made her payments on time and by at least the minimum. The credit checks Shop Direct conducted - showed that her credit card balance had remained around £1,300 and her fixed term loan balance was around £11,000.

The checks showed that Mrs W was three months' payments in arrears on at least one account, and that she'd been in arrears on at least one account in eight out of the previous twelve months. The checks also showed Mrs W had consistently high credit card utilisation, for the previous twelve months.

So, I think Mrs W was continuing to show signs of financial stress – and those signs were worsening, as she was now in three months' arrears elsewhere.

Shop Direct has said that the arrears were only reported for a short period of time and therefore it's likely they stemmed from a dispute. However, the information it's provided indicates that the checks it had conducted showed that Mrs W had been in at least one month's worth of arrears for at least six months by January 2014. So while it's possible Mrs W was in dispute with another creditor, I think it's more likely her arrears position had worsened.

Overall, I think Mrs W was showing sustained signs of financial stress in January 2014. I think that Shop Direct should have had concerns that the new credit limit wouldn't be sustainably affordable for her, and shouldn't have offered it.

Putting things right

To put things right, Shop Direct Finance Company Limited should:

- Rework the account, removing all interest and charges incurred on balances of over £1,300.
- If the reworks result in a credit balance, this should be refunded to Mrs W 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 regarding the account from Mrs W's credit file.
- Or, if after the rework there is still an outstanding balance, Shop Direct should arrange an affordable repayment plan with Mrs W for the remaining amount. Once Mrs W has cleared the outstanding balance, any adverse information recorded in relation to the accounts should be removed from her credit file.

I've also considered whether Shop Direct's actions means there's an unfair relationship between it and Mrs W. However, I'm satisfied the redress I have directed above results in fair compensation for Mrs W 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.

My final decision

My final decision is that I uphold this complaint and direct Shop Direct to resolve it as I've explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 1 October 2024.

Frances Young
Ombudsman