

The complaint

Mr J complains that Shop Direct Finance Company Limited irresponsibly granted him two running account credit agreements he couldn't afford.

What happened

Shop Direct gave Mr J two running credit accounts. The first was granted in January 2016 with a limit of £1,000. The credit limit on this account was increased five times to £2,700 in November 2022. The credit limit increases are as follows.

Date	Limit
January 2016	£1,000
April 2016	£1,200
August 2016	£1,400
February 2020	£1,900
August 2021	£2,400
November 2022	£2,700

Shop Direct also gave Mr J a second account in October 2016 with a starting limit of £750, the credit limit on this card was never increased and the account ceased being used in 2017. From what I can see, Mr J doesn't have any outstanding balances on either of his accounts.

When Mr J complained to Shop Direct, it didn't uphold any aspect of his complaint and so he referred it to the Financial Ombudsman Service where one of our investigators looked at what both parties said. Our investigator didn't think Shop Direct did anything wrong when it agreed the initial credit limit on both accounts but thought Shop Direct shouldn't have increased Mr J's limit beyond £1,400 as further checks would have shown he was likely to struggle to keep up with his payments.

Shop Direct didn't agree, it said Mr J maintained his accounts well and there were no signs to suggest he was struggling financially. Shop Direct asked for an ombudsman to make a decision on the complaint.

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.

Before lending to Mr J, Shop Direct needed to complete proportionate affordability checks to ensure the lending would be affordable and sustainable for him. It also needed to do this each time it sought to significantly increase his credit limit. There isn't a set or prescribed list of checks it needed to complete each time, as what is considered proportionate will vary with each lending decision. In deciding what was proportionate, Shop Direct needed to take into account things such as (but not limited to): the amount of credit, the cost of credit, the size of any regular repayments and Mr J's specific circumstances.

Before agreeing both credit accounts, Shop Direct has provided evidence to show it searched Mr J's credit file and asked him about his income. For the account opened in January 2016, it says it found Mr J was employed full time on an annual gross income of £35,000. Mr J was a homeowner with a mortgage and two dependents. The results of Shop Direct's credit search showed Mr J had total credit debts of around £11,320, there was nothing else concerning on Mr J's credit file.

Looking at the circumstances around this initial credit limit, I think Shop Direct did enough before lending here, I think its checks suggest Mr J would have been able to afford his repayments at this level of credit.

Turning to the other account opened in October 2016, Shop Direct agreed an initial limit of £750. By this time, Mr J's limit on the initial account had increased to £1,400 so the granting of the limit on this new account increased Mr J's combined credit limit to £2,150.

At the time of opening this second account, Mr J's total credit on his credit file had increased to around £15,000, he still had a mortgage and two dependents. Mr J's declared income had increased to £51,000. Taking Mr J's increased income and the fact there wasn't anything concerning from the results of the credit search, I think Shop Direct did enough here and its checks suggest Mr J could afford the repayments on his combined limits. I'm also mindful that Mr J had managed his credit account reasonably well at this point and this would have given Shop Direct further confidence that he could afford what he was borrowing.

Credit limit increases

Following the initial credit, I can't see Shop Direct carried out any further checks before increasing Mr J's credit limit at any point. Having looked at the available information, there was nothing in how Mr J utilised his account that was concerning when Shop Direct increased his limit to £1,200 in April 2016 and to £1,400 in August 2016. Also, as these limit increases were small and close to the original lending decision, it wasn't unreasonable for Shop Direct to think Mr J was in a similar position he was at the time the account was initially open. On balance, I think Shop Direct wasn't wrong to agree these first two credit limit increases.

More than three years later, Shop Direct increased Mr J's credit limit to £1,900. As stated above, I haven't seen any evidence that any further checks were conducted further checks before any of the credit limit increased, and while I acknowledge that Mr J's usage of the accounts weren't particularly concerning, I think the length of time between the increases was significant and Shop Direct should have been concerned that Mr J may have had a change in circumstances, it should have been asking him questions about his finances and checking his credit file.

By the time of the subsequent increases in August 2021 and November 2022, it should have been looking to get a good understanding of Mr J's financial circumstances including verifying information that Mr J provided. As Shop Direct didn't carry out any checks before the credit limit increases in February 2020, August 2021 and November 2022, I don't think it did enough before agreeing the increases.

Mr J has provided copies of his bank statements from around the time of these limit increases and in the absence of information from Shop Direct to show it carried out further checks, I've relied on Mr J's statements to understand his financial circumstances at the time.

At the time of the limit increase in February 2020, Mr J's income was around £2,200 a month and looking at his living costs and credit commitments, Mr J was left with a small disposable

income of around £50, I can also see Mr J had gambling transactions and so I don't think the increase at this time was affordable for him.

Mr J was in a similar position with his income at the time of the limit increase in August 2021, but this time his expenses had increased, and he was repaying at least three other loans. Looking at his income and living costs including credit commitments, Mr J wasn't left with any disposable income. Mr J couldn't afford this limit increase.

I've also looked at Mr J's financial circumstances at the time of the final limit increase in November 2022, and while Mr J's income had increased to over £4,000 a month, I think by this stage, Mr J was struggling to manage his finances.

I say this because despite his large income, Mr J was repaying at least three other loans, and in the months before this limit increase, he struggled to maintain a balance on his current account and was incurring overdraft charges. I can also see that Mr J was paying some of his living costs through his overdraft. I don't think Mr J was in a sustainable financial position to afford this limit increase.

Overall, Shop Direct shouldn't have increased Mr J's credit limit from February 2020 onwards and it needs to put things right.

Putting things right – what Shop Direct needs to do.

- Re-work account one as if the limit had never been increased above £1,400. This means refunding any interest (including buy-now-pay-later interest), fees, charges and insurances (not already refunded) that were charged as a result of the balance exceeding £1,400.
- If the re-work results in Mr J having paid back more than he borrowed, then any overpayments should be refunded to him. Shop Direct should add 8% simple interest per year on any refund from the date of each overpayment to the date of settlement. It should also remove any adverse information it has recorded on his credit file since February 2020.
- Or, if after the re-work there is still a balance outstanding, then Shop Direct should agree an affordable repayment plan with Mr J for the outstanding amount. Once Mr J has repaid the capital Shop Direct should remove any adverse information it might have recorded on his credit file since February 2020.

If Shop Direct considers tax should be deducted from the interest element of my award, it should provide Mr J with a certificate showing how much it has taken off so he can reclaim that amount if he wishes to do so.

My final decision

For the reasons given above, I uphold Mr J's complaint in part 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 J to accept or reject my decision before 15 April 2024.

Oyetola Oduola
Ombudsman