

## **The complaint**

Mr B has complained that Shop Direct Finance Company Limited, trading as Very, irresponsibly lent to him.

## **What happened**

Mr B opened a shopping account with Shop Direct in November 2015. This was not a credit account. In August 2020 he converted it to a credit account with a limit of £250, but he didn't ever spend anything on it.

Later in August 2020 Mr B opened another Shop Direct account. This had an opening limit of £400. Over the course of about three years the credit limit was increased four times until in June 2023 it was £2,200. His credit limit was decreased to £975 when he entered a debt management plan (DMP).

Mr B says that Shop Direct shouldn't have lent to him. He says that he couldn't afford the credit and that Shop Direct ought to have known this.

Shop Direct says it did all the necessary checks before it lent to Mr B – and when it increased his credit limit.

Our investigator thought that Mr B's complaint should be partially upheld. They noted that as Mr B hadn't spent anything on the first account he had experienced no detriment by the provision of the credit. However, in relation to the second account, our investigator thought that when Shop Direct increased Mr B's credit limit from £400 to £900 on 8 May 2021 it ought to have completed further checks. Had it completed further checks, our investigator considered that Shop Direct would have seen that Mr B was struggling financially and couldn't sustainably repay any further credit. Our investigator thought that Shop Direct should pay back interest and charges on sums borrowed above £400 from 8 May 2021. Shop Direct agreed with this assessment. Mr B didn't agree. He said that Shop Direct's checks hadn't properly reflected his circumstances at the time. He provided evidence to show that he was borrowing from other creditors which Shop Direct's checks hadn't shown at the point of account opening.

Our investigator noted the discrepancy. Shop Direct couldn't explain why its own checks showed something different. Our investigator concluded that Shop Direct completed appropriate checks at the point of account opening and, even though the information turned out to be incorrect, it couldn't be held responsible for the information which was provided to it.

As Mr B didn't agree, the case has been passed to me to make a decision.

## **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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mr B's complaint.

Shop Direct needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr B could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Mr B's income and expenditure. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that that the lending was unsustainable.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

Parties agree that the latter credit limit increases on the second account shouldn't have been provided. And there was no detriment to Mr B as a result of the conversion to a credit account in relation to the first account. The only matter I have to decide is whether Shop Direct acted fairly when it opened the second account.

I think the checks Shop Direct completed when it opened Mr B's account were reasonable and proportionate, taking into consideration the amount it was lending him, Mr B's declared income and living circumstances and the information it obtained through its checks. I accept what Mr B has said about the information Shop Direct held being incorrect. It's clear that his financial circumstances were different to those Shop Direct understood and the information Shop Direct held about his existing credit limit available elsewhere was incorrect. But I don't accept that Shop Direct acted unfairly. It was entitled to rely on the information provided by the credit reference agency. And even if it had been aware of Mr B's borrowing elsewhere I don't think it would have acted differently and not provided him with the credit. While Mr B had one default evident on his record he hadn't been in arrears in the preceding 24 months. He had an income of £50,000 and was living with his parents, so his essential expenditure was likely to be reasonably low. Sustainable repayments if Mr B had used his whole limit straightaway would have been in the region of £20 a month.

On this basis, I think Shop Direct did reasonable and proportionate checks and acted fairly on the results of those checks.

Mr B says that another business upheld a similar complaint of his when it realised the credit data it held had been incorrect. He names the credit reference agency responsible. I cannot comment on the circumstances of that complaint as it has not been brought to this service and this service reviews each complaint on its individual merits. Mr B may want to consider contacting the credit reference agency he has identified to make further enquiries.

### **Putting things right**

I think it's fair and reasonable for Shop Direct to refund any interest and charges incurred by Mr B as a result of the credit unfairly extended to him. I don't think the limit should have been increased on the second account (x3734) from 8 May 2019 onwards, therefore Shop Direct should rework the account and:

- remove any interest and charges incurred as a result of any increases (including any buy now pay later interest). That is, Shop Direct can only add interest accrued on the

- balance up to the credit limit of £400 – this being the credit limit before 8 May 2021.
- Shop Direct should work out how much Mr B would have owed after the above adjustments. Any repayment Mr B made since 8 May 2021 should be used to reduce the adjusted balance.
  - If this clears the adjusted balance any funds remaining should be refunded to Mr B along with 8% simple interest per year\* - calculated from the date of overpayment to the date of settlement.
  - If after all adjustments have been made Mr B no longer owes any money then all adverse information regarding this account should be removed from the credit file from 8 May 2021.
  - Or, if an outstanding balance remains, Shop Direct should look to arrange and affordable payment plan with Mr B for the outstanding amount. If any debt was sold to a third party, Shop Direct should either repurchase the debt or liaise with the third-party to ensure the above steps are undertaken. Once Mr B had cleared the balance, any adverse information as a result of the unfair lending should be removed from the credit file.

\*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest. It must give Mr B 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**

I think Shop Direct acted unfairly when it extended further credit to Mr B on 8 May 2021. To put this right I direct Shop Direct Finance Company Limited to pay compensation as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 6 June 2024.

Sally Allbeury  
**Ombudsman**