

The complaint

Ms B has complained that Shop Direct Finance Company Limited, trading as Very (“Shop Direct”) irresponsibly granted her a credit account, and subsequently increased her credit limit, which she couldn’t afford to repay.

What happened

Ms B opened the account with Shop Direct in April 2015, with an initial credit limit of £1,000. There were several credit limit increases on the account – the dates and amounts are as follows:

- 18/07/2015 - £1,250
- 07/11/2015 - £1,550
- 02/01/2016 - £1,800
- 26/03/2016 - £2,100
- 16/07/2016 - £2,400
- 05/11/2016 - £2,900
- 20/05/2017 - £3,400
- 09/09/2017 - £3,500
- 27/01/2018 - £3,600
- 19/05/2018 - £3,700
- 29/12/2018 - £3,800
- 23/03/2019 - £3,900
- 13/07/2019 - £4,000
- 23/10/2021 - £4,050
- 22/09/2022 - £4,450

Shop Direct decreased the limit to £3,450 in May 2023 for affordability reasons.

Ms B said she was in financial difficulties, and shouldn’t have been granted the credit, so she complained to Shop Direct. She said she’d like a refund of interest and charges, and any adverse information to be removed from her credit file.

Shop Direct said in its final response letter to Ms B (in July 2023, and after the complaint had been brought to this service) that it was upholding her complaint from November 2016, in effect saying that increases in the credit limit above this point (so above £2,400) were unaffordable. However, it said no redress was payable at that point as no interest charges or administration fees had been applied to a balance higher than £2,400. I understand that a refund of some interest has now been made.

Our investigator looked into Ms B's complaint, and thought it should be upheld from the point that Ms B encountered financial difficulties – which Shop Direct had already agreed to do. However, Ms B didn't agree with what Shop Direct had said about redress, so the complaint came to me for review.

I issued a provisional decision in February 2024, in which I explained that I was proposing to uphold the complaint, but from an earlier point than Shop Direct had already agreed to do. Ms B and Shop Direct have responded to my provisional decision, both saying that they accept my conclusions.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I've taken this into account here.

I've decided to uphold Ms B's complaint, but from an earlier point than Shop Direct had already agreed to do. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether Shop Direct completed reasonable and proportionate checks to satisfy itself that Ms B would be able to make the repayments on the account in a sustainable way.

Shop Direct sent in details of Ms B's application and the account history. Ms B provided a number of documents relating to her credit history.

I set out my reasoning in my provisional decision as follows:

“Shop Direct said that when Ms B applied for the account, it used the information she provided, along with credit reference agency data, to decide whether to accept the application. In relation to credit limit increases, it said that it reviewed information received monthly from credit reference agencies, together with an assessment of how Ms B had managed the accounts and repayments, before applying any changes to the account.

Because the date the account was opened was so long ago, I don't have a full credit history for Ms B at the point she applied for the account. Shop Direct sent in a summary of the application details, and this shows that Ms B stated a salary of £20,000 and there was outstanding credit of £9,000. There was no adverse credit information shown, other than one missed payment on an account.

I know from other evidence that Ms B sent in that she had an overdraft on her current account and a personal loan at the time, but I've no evidence to say that she wasn't maintaining payments on these.

Ms B has since said that her home was repossessed before she took out the Shop Direct account, but I don't have details of the date or the circumstances. This doesn't appear on the information that Shop Direct sent in. She has also referred to other credit commitments, but again I don't have the dates when these started, so I can't say whether these were in place

in April 2015 – and if they were, I would have expected these to have shown up in the information that Shop Direct obtained from the credit reference agencies.

Taking all this into account, and based on the limited evidence available from April 2015, I can't fairly say that Shop Direct didn't carry out appropriate checks before opening the account, or that it acted unfairly in accepting Ms B's application for credit.

After Ms B taking out the account, Shop Direct increased the credit limit 15 times. I don't have information about whether any of these increases were requested by Ms B, or whether they were automatically applied by Shop Direct. As I noted above, Shop Direct has accepted that the increases to the limit over and above £2,400 were unaffordable, so I don't need to look at the circumstances of those increases in any detail.

I've therefore looked at the following credit limit increases:

- 18/07/2015 - £1,250*
- 07/11/2015 - £1,550*
- 02/01/2016 - £1,800*
- 26/03/2016 - £2,100*
- 16/07/2016 - £2,400*

For the first three, I don't have any evidence about Ms B's credit commitments, other than what I've mentioned above, or the details of Shop Direct's checks. However, the records of Ms B's account show that she made repayments on time, so I have no clear evidence to suggest she was in financial difficulty over this period, or that the increased credit was unaffordable.

However, looking at the increases in March and July 2016, I have information showing that Ms B exceeded her overdraft limit on a current account in February 2016. Other information provided by Ms B confirms that she had two current accounts at this time, with overdraft limits totalling £8,400, which were fully utilised, and a personal loan which had been granted in 2014. I don't have the balance as at February/March 2016, but the balance in April 2017 was just under £5,400, so would have been higher in 2016. The overdraft amounts are quite high, and I think the limit on one of the accounts being exceeded would have shown on the credit reference agency data that Shop Direct said it would have used, along with Ms B's other credit commitments.

I don't have a full picture of Ms B's other commitments at the time, but I think the level of the overdraft, the limit being exceeded, and what seems to have been quite an increase in Ms B's borrowing since the Shop Direct account was opened, should reasonably have prompted Shop Direct to make further enquiries about Ms B's circumstances before it increased the credit limit in March 2016 (and again in July 2016).

I also note that information provided by Ms B refers to missed payments on one of her current accounts in April and May 2016, and again in October 2016, one of which was to a payday loan company. This suggests that Ms B was already in financial difficulty.

Taking all this into account, I think that if Shop Direct had looked at Ms B's finances in more detail in March 2016 (and indeed in July 2016) it would most likely have found that payments on an increased level of credit were unlikely to be sustainable. Given the overdraft arrangements on her current accounts, I think she would effectively have been making the repayments on the Shop Direct account from other borrowing. So I don't think it acted fairly in increasing Ms B's credit limit above £1,800."

I said in my provisional decision that, as a result, I was proposing to uphold Ms B's complaint in respect of the increases to the credit limit from 26 March 2016 onwards (rather than November 2016 onwards which is what Shop Direct had already agreed it would do).

As I noted above, both parties responded to say they had nothing further to add. As no new evidence or information has been provided, I have no reason to change my conclusions. Therefore I uphold Ms B's complaint in respect of the increases to the credit limit from 26 March 2016 onwards.

Putting things right

Shop Direct should compensate Ms B as follows

- Rework the account, removing all interest, fees, charges, and insurances (not already refunded) that have been applied to balances above £1,800 after 26 March 2016.
- If the rework results in a credit balance, this should be refunded to Ms B, 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 recorded after March 2016 regarding this account from Ms B's credit file.
- Or, if after the rework, the outstanding balance still exceeds £1,800, Shop Direct should arrange an affordable repayment plan with Ms B for the remaining amount. Once Ms B has cleared the outstanding balance, any adverse information recorded after 26 March 2016 in relation to the account should be removed from her credit file.
- Write to Ms B to set out how the redress has been calculated
- If Shop Direct has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Shop Direct to deduct tax from any award of interest. Shop Direct must give Ms B a certificate showing how much tax has been taken off if she asks for one. If Shop Direct 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've decided to uphold Ms B's complaint in part – that is in relation to credit limit increases from March 2016 - and to require Shop Direct Finance Company Limited to compensate Ms B as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 28 March 2024.

Jan Ferrari
Ombudsman