

The complaint

Mrs C complains that Shop Direct Finance Company Limited (“Shop Direct”), trading as Very, irresponsibly granted her a catalogue shopping account she couldn’t afford to repay.

What happened

In September 2019 Mrs C entered into an agreement with Shop Direct to have access to credit by way of a catalogue shopping account with an opening credit limit of £600. The credit limit was increased four times: in January 2020 to £1,000; in November 2020 to £2,000; in March 2021 to £2,400 and finally in September 2021 to £2,800.

Mrs C started getting into difficulty with meeting her monthly repayments in January 2022. In March 2022 Mrs C told Shop Direct that she was no longer working.

Mrs C says that Shop Direct didn’t complete adequate affordability checks and the opening credit limit, followed by the subsequent credit limit increases, were unaffordable for her and so worsened her financial situation.

Our investigator looked into the complaint and at first considered that Shop Direct may have made an unfair decision in granting the credit. But after she received further information from both Mrs C and Shop Direct she thought that Shop Direct hadn’t made an unfair lending decision, either when it granted the account or when it went on to grant the credit limit increases.

Mrs C wasn’t happy with this outcome and so requested that her complaint be passed to an ombudsman for 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.

Shop Direct will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I’ve read and considered the whole file, but I’ll concentrate my comments on what I think is relevant. If I don’t comment on any specific point it’s not because I’ve failed to take it on board and think about it, but because I don’t think I need to comment on it in order to reach what I think is the right outcome.

In making my decision I’ve looked at the overall pattern of Shop Direct’s lending history with Mrs C, so as to see if there was a point at which Shop Direct should reasonably have seen that further lending was likely to be unsustainable, or otherwise harmful. If so, that would mean Shop Direct ought to have realised that it shouldn’t have granted Mrs C the account or gone on to increase her credit limit.

Based on what I've seen about this complaint, I've reached a conclusion that's broadly similar to that of our investigator who didn't uphold Mrs C's complaint. I'll explain why.

Account opening

When Mrs C opened the account, Shop Direct has told us there were no significant signs of recent financial difficulties based on the checks it carried out. Mrs C told Shop Direct she was earning a net income of around £27,500. The checks also showed she was a homeowner with a mortgage. The credit checks were carried out using a credit reference agency. There were no recent markings on her credit history that might be considered adverse, such as defaults or falling consistently behind with repayments. She owed around £1,600 on credit cards but she also had a loan debt to repay of around £26,000. She was therefore making total credit repayments each month of around £585.

The opening credit limit, whilst not especially high, needed to be taken into consideration alongside Mrs C's existing borrowing. It's certainly possible that the initial checks at the time of the account opening weren't as thorough or sufficient as they might have been. Shop Direct needed to ensure that Mrs C was able to continue making sustainable repayments towards her other credit as well as for her new account. As Mrs C has now given us copies of statements from her current account, as well as a related savings account, I can see that she was managing her financial situation reasonably well. There's limited details about her spending on household costs, aside from food, which leads me to think her partner was dealing with much of this, although I've seen she had to fund some childcare. I've also noted that she was using the overdraft facility on her current account fairly regularly. Consistent overdraft use is always a potential issue of concern. However, Mrs C's use of it was more reflective of overspend leading up to receiving her monthly salary – which is not in itself unusual. Her overdraft usage doesn't show or suggest that her financial situation was at risk of deterioration.

Overall, I am satisfied that the statements I've seen demonstrate that Mrs C would be able to affordably repay the new credit. I therefore don't consider that had it carried out better checks at this point, Shop Direct might have reconsidered granting the opening credit.

Credit limit increases

I've seen that generally Mrs C managed her Shop Direct account well after its opening and during the course of the credit limit increases that were granted. She made her monthly payments on time in the main. I'd say that her overall account use didn't suggest that she'd have difficulties in the run-up to being granted each increase. Most of her spending was focused on buy now pay later purchases. And looking at what happened in the period before each limit increase I can't see any significant evidence of difficulty.

Shop Direct's credit checks tend to support this picture of Mrs C's account usage and management and didn't flag any particular problems with her credit record. The level of loan debt she owed was gradually decreasing. But on the other hand I've noticed she was using a wider spread of credit by way of increasing the number of unsecured borrowing accounts she had open, such as credit cards and catalogue accounts. I've also seen that her total monthly repayments for credit had increased to around £900 in the months leading up to the second credit limit increase, but then had reduced to £526 at the time of the actual increase. From then on, Mrs C's total debt repayments continued to fall, reaching around £430 at the point of each of the final two increases. So I don't think that necessarily means that better checks were required for each increase, especially given they were only a few months apart.

I haven't seen full bank statement information for the period of the increases. I've noted she was using it heavily in late 2019 prior to taking out some borrowing, but was then able to

reduce it back down. I can also see that over the period of the credit limit increases her level of credit debt was gradually increasing. This of course meant she was having to pay back more towards credit cards and loans. I realise this would have further stretched her financial position. But from what I've seen I can't say that the increases granted were unaffordable. I've kept in mind that Mrs C appeared to be successful in steadily paying down what she owed Shop Direct, right up to the last credit limit increase. I appreciate this position changed towards the end of 2021 when Mrs C started getting into difficulty, although this was after the last limit increase had been given.

All of this means that I've not seen enough evidence so as to think that better affordability checks would have led Shop Direct to think that the opening credit limit and the credit limit increases that followed were unfairly granted or likely to turn out to be unaffordable for Mrs C.

I am sorry to have to disappoint Mrs C. I realise she has put a lot of time into providing information to our investigator. But having considered all the available evidence and information, from the time of the lending decision and going forwards from that, I haven't found sufficient evidence to uphold this complaint.

It follows that, for the reasons I've already given, I don't think Shop Direct lent irresponsibly to Mrs C or otherwise treated her unfairly. I haven't seen anything to suggest that Section 140A of the Mrs Credit Act 1974 or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 2 August 2024.

Michael Goldberg
Ombudsman