

The complaint

Miss K 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 2020 Miss K entered into an agreement with Shop Direct to have access to credit by way of a Very catalogue shopping account with an opening credit limit of £600. The credit limit was increased three times: in April 2021 to £900; in September 2021 to £1,200 and then in January 2022 to £1,600.

In June 2023 Miss K cleared the outstanding balance on her account.

Miss K says that Shop Direct didn’t complete adequate affordability checks and the opening credit limit, followed by the subsequent credit limit increases, were too high and so worsened her financial situation.

Our investigator looked into the complaint but didn’t recommend it be upheld.

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

Before providing the credit for Miss K, Shop Direct says it carried out a check using a credit reference agency, in addition to the information Miss K provided in her application. Miss K had told Shop Direct she had an annual gross income of around £23,300 and that she was living with her parents. I’ve also seen from the results of the credit reference check that Miss K’s recent credit history didn’t raise any concerns. The information from the check showed she had one other loan account with around £750 owing.

It’s possible that Shop Direct’s checks weren’t sufficient. But even if the checks were perhaps not as good as they should have been, I don’t think better enquiries would have

caused it to think the opening credit limit was unaffordable. I say this because Shop Direct gave Miss K an initial credit limit of £600 which, even if the whole credit was used, would require relatively modest monthly repayments, which from what I've seen was likely to have been affordable for her. There was also no evidence from the checks of previous recent financial difficulties in relation to credit, such as defaulted accounts or county court judgments. Taking all of this into consideration, I don't think that better checks at this point would have led Shop Direct to reconsider or refuse the opening credit.

I've seen that Miss K generally managed her Very account well. It's correct to say that in general her payments each month were low, being at minimum or slightly above it. However, she didn't miss the required payments, didn't incur late payment charges and only once went over her credit limit. When her credit limit was reduced to £1,000 as result, Miss K immediately reduced her balance and kept within the new limit. It therefore seems to me that Miss K's use of her account didn't suggest that she'd have difficulties if granted an increase and was able to reduce her account spending when it got too high.

I've also reviewed the information Miss K provided to us, including her credit report and bank statements from when she took out the account and also from around the time she was granted each of the credit limit increases. The credit report doesn't show anything to suggest that the information Shop Direct relied on may have been wrong or incomplete or that she'd taken on a level of credit elsewhere that was likely to lead to financial difficulties. The bank statements show details of Miss K receiving her regular monthly income. I've seen that there was some variation in this from month to month, although her net income was generally around £1,700-£1,880 net each month. I've also looked at her committed expenditure such as housing costs, travel and food costs and other credit. Broadly speaking, Miss K appeared to be managing her account reasonably well and was able to meet her monthly credit and other day-to-day spending commitments. I've also seen that Miss K was making regular use of her bank overdraft facility. Whilst overdraft use is always a concern, especially when relied on for a sustained period of time, I don't think it necessarily means that credit granted in the way Shop Direct did might be automatically found to be unaffordable.

All of this means I've seen insufficient evidence to think that a more thorough affordability check would have led Shop Direct to think that the initial credit limit it provided to Miss K as well as the subsequent credit limit increases were unreasonable.

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 Miss K to accept or reject my decision before 8 February 2024.

Michael Goldberg
Ombudsman