

The complaint

Miss B complains that Shop Direct Finance Company ("Shop Direct"), lent to her irresponsibly.

What happened

Miss B applied for a credit shopping account with Shop Direct in September 2017. She opened an account with a credit limit of £400. The credit limit was increased four times over the following three years or so until it reached £2,200 in January 2021. In July of the same year, Shop Direct decreased her limit to £1,125.

Miss B says that Shop Direct shouldn't have provided her with increases in the credit limit. She says she couldn't afford the extra borrowing.

Our investigator partially upheld Miss B's complaint. They said that although the account opening was appropriate that when it came to the first credit limit in March 2018 Shop Direct ought to have done more checks on her finances and had it done so it was likely it would have seen that Miss B couldn't afford any more credit.

Miss B agreed with the outcome. Shop Direct didn't agree. It said the evidence suggested that Miss B could afford the borrowing and it believed the checks it performed were proportionate and reasonable.

As Shop Direct didn't agree, the complaint was passed to me to make a decision. When I reviewed the complaint I provisionally decided that Miss B's complaint shouldn't be upheld. I wrote to both parties to explain my provisional decision and to invite further comments and evidence.

Shop Direct responded with more information about how it reached its lending decisions. Miss B didn't respond.

Having reviewed the additional information from Shop Direct I consider that it supports my provisional findings and so I see no reason to change it.

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 considering Miss B's complaint.

Having done so, I don't think Miss B's complaint should be upheld. I will explain my decision.

Shop Direct needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss B could afford to repay what she 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 amount, Miss B's borrowing history and her income and expenditure.

While Miss B has only directly complained of the credit limit increases, I have looked at all of the lending decisions, including the initial decision to lend.

Shop Direct has said that it completed proportionate checks when Miss B opened her account and there was no reason to think that Miss B couldn't afford the credit. She had declared an income of £29,501 providing a net monthly income of around £1,900 and she said she was in full time employment and living with her parents. I note now that Miss B declared she had a dependant, but that doesn't make a difference to the outcome of this complaint. This information was verified through external information derived from a credit reference agency.

At the time of my provisional decision Shop Direct hadn't explained how it verified Miss B's income and personal circumstances. However, I still don't think this was sufficient in the circumstances. While Shop Direct thought it understood her income and her living arrangements it still had no knowledge of her wider financial circumstances. I think Shop Direct ought to have obtained more information about these before it lent to her.

Shop Direct It has provided a copy of the results of checks it made from October 2017 onwards. While these are from the month after Miss B opened her account I think it's likely the checks give a good picture of what Miss B's circumstances would have been like the preceding month had Shop Direct completed adequate checks.

From these checks I can see that Miss B had a balance of £2,985 on credit cards and had utilised 100% of her available credit in the last 12 months. It didn't receive any information about whether she had accounts in default, but it could see that she had been in arrears on other accounts for five out of the last 12 months and that it had only been five months (so, four at the time of account opening) since she had been in arrears for two or more consecutive months.

So, if Shop Direct had completed adequate checks at account opening I think it would have seen information which ought to have caused it to make further enquiries to be assured the credit was affordable for Miss B. I think this would have involved asking Miss B about her income and essential expenditure.

I can't know for sure what Miss B would have told Shop Direct if she had been asked about her circumstances. Miss B has been able to provide copies of bank statements from November 2017 (so, two months following her successful application) and I don't think her circumstances would have been significantly different two months before. Looking at these, I can see that she was overdrawn and that her income was around £1,400 a month net rather than £1,900 a month. Our investigator thought that as this information was about the same at the point of the first credit limit in March 2018 that this was evidence that Miss B couldn't afford the credit and that Shop Direct shouldn't have increased her credit limit.

However, I don't think I can safely say the same. Looking at Miss B's bank statements I agree that she was overdrawn and that her income was lower than she declared on application. But I also can't see that Miss B's essential expenditure was particularly high. The vast majority of Miss B's spending was on non-essential expenditure and I can see very

little to suggest that Miss B wouldn't be able to afford the increased borrowing because her essential expenditure was too great. Shop Direct also makes the point that in March 2018 Miss B had regularly making larger payments to her account that would have been required even with the higher credit limit.

I noted from Miss B's records that she had five or six bank accounts during the course of her Shop Direct account and I could see that Miss B made transfers between the current account she provided statements for and at least one other account. I thought that her essential expenditure may be evidenced on these other bank account statements, so I asked to see copies of these – or at least to have an explanation of what essential expenditure Miss B had and how she paid for it. Unfortunately, I didn't receive a response. So I can only assume that Miss B had no or little essential expenditure because she was living at home with her parents.

Having reviewed the later credit limit increases (which weren't examined in much detail by our investigator as they had already upheld Miss B's complaint from the earlier point) I have similar concerns about the checks Shop Direct completed. For example, by the time it came to the final credit limit increase to £2,200 in January 2021, Shop Direct had information that Miss B had taken out substantial loans and had increased her number of credit accounts by seven since the account opening. Her monthly repayments were around £432. But even if I take this £432 into account as essential expenditure I don't have evidence to support that the additional repayments on her increased credit limit for her Shop Direct account would have been unaffordable. Since my provisional decision Shop Direct has said that in February 2020 Miss B's income was validated with a credit reference agency as being £37,000. I note from Miss B's bank account statements and her credit file that she had taken some short-term lending and two unsecured loans, but even taking these into account I can't support a finding on the information I have that had Shop Direct completed necessary and proportionate checks it ought to have realised the lending was unaffordable.

On the basis of the information I have, I think Shop Direct didn't complete necessary and proportionate checks, but I can't safely say if it *had* done so, that it ought to have considered the increased lending would be unaffordable for Miss B. So, I don't currently think Miss B lost out as a result of anything Shop Direct did wrong.

My final decision

For the reasons I have set out above I do not uphold Miss B's complaint and Shop Direct Limited does not need to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 19 September 2023.

Sally Allbeury
Ombudsman