

## The complaint

Ms B complains that Shop Direct Finance Company Limited acted irresponsibly in offering her catalogue shopping accounts that were unaffordable for her.

## What happened

Ms B took out a catalogue shopping account with Shop Direct under its Littlewoods brand in November 2018, initially with a limit of £400.

Ms B also had an account under the very brand, initially a cash account opened in 2015. She applied for a credit account in 2019, and Shop Direct offered her a limit of £600.

The limits of the accounts were changed as follows:

Date	Littlewoods	very	Total credit limit with Shop Direct
November 2018	£400		£400
January 2019	£375		£375
February 2019	£300		
March 2019	£200		£200
August 2019	£700		£700
October 2019		£600	£1,300
April 2020	£1,000	£800	£1,800
August 2020		£1,300	£2,300
October 2020	£2,000		£3,300
May 2021	£3,000		£4,300
April 2022	£2,225		£3,555

Ms B struggled to make her repayments from February 2022 onwards, and the accounts were defaulted in August 2022.

Shop Direct didn't issue a final response to Ms B's complaint within the timeframe set by the regulator, so Ms B referred her complaint to our service.

When it responded to our service about the complaint, Shop Direct told us that when Ms B

applied for each account it assessed information sourced from credit bureaus, and the limits were offered based on its findings. It said that Ms B received periodic increases in the credit limits, and it assessed her account each time it offered an increased credit limit.

One of our Investigators considered the complaint. She thought that Shop Direct had acted reasonably in offering the initial credit to Ms B, but that by August 2020 it was apparent that she was struggling to manage the existing credit limit. She therefore thought Shop Direct should refund any interest and charges incurred as a result of any increases after that date.

In response, Ms B said that she had two or three county court judgments against her at the time she'd taken out the accounts – so she didn't think Shop Direct had conducted the checks it said it had.

Shop Direct disagreed with the Investigator's findings. It said that both accounts were being managed well – there had been one missed payment on the Littlewoods account in December 2019, but they were otherwise up to date. It also reviewed the information from credit reference agencies and said that it appeared to them Ms B's position had improved, for example her defaulted balance had reduced from £2,077 to £49.

As our Investigator couldn't resolve things, the case was passed to me to decide.

I issued a provisional decision, explaining I intended to uphold the complaint in full. In the provisional decision, I said:

*"I've considered the relevant rules and guidance on responsible lending set by the regulator, laid out in the consumer credit handbook (CONC). In summary, these say that when Shop Direct first offered each catalogue account – and each time it offered a credit limit increase – it needed to complete reasonable and proportionate checks to satisfy itself that Ms B would be able to repay the debt in a sustainable way, without borrowing further elsewhere. As these were open ended accounts, Shop Direct also needed to consider whether Ms B would be able to repay the debt within a reasonable period.*

*The information Shop Direct provided our Investigator indicated that when it had conducted checks with credit reference agencies prior to offering the Littlewoods account in 2018, those checks had shown that she had three defaulted accounts. The information provided to our Investigator also indicated that the checks conducted prior to offering the very account in 2019 showed that Miss B's existing credit commitments had only been fully up to date in seven months of the previous two years, and she had two defaulted accounts.*

*The information didn't indicate when the accounts had been defaulted, and suggested she had no county court judgments.*

*Following our Investigator's opinion, Shop Direct provided further information from credit reference agencies it held from during the life of Ms B's accounts. That information shows that – on each occasion, before it offered either account - one of the defaults had occurred just one month prior to Ms B's application. The data Shop Direct provided also show that Ms B county court judgments against her of over £11,400 on taking out the Littlewoods account, and this had grown to over £11,600 prior to her taking out the very account.*

*It's unfortunate Shop Direct didn't provide our Investigator accurate information about the checks it conducted prior to deciding to lend, or what those checks found.*

*I think that Shop Direct should have been prompted to conduct further checks by the fact that Ms B had an account defaulted so recently prior to each of the applications, and asked for copies of her bank statements to verify her income and expenditure. So, I've considered Ms B's bank statements for the three months prior to both applications.*

*Those statements show that Ms B was using her overdraft facility on a daily basis, largely close to its agreed limit, and paying to do so. Ms B's salary was lower than her agreed overdraft limit, so she was continually using credit that it doesn't appear Shop Direct took into account when deciding whether or not the accounts were sustainably affordable for her. And it means that Ms B would be making her payments to the accounts with Shop Direct by borrowing further from her overdraft.*

*I think Ms B's overdraft usage is a sign that she was experiencing financial stress. I think that, had Shop Direct conducted proportionate checks, it would have found that the catalogue accounts were not sustainably affordable for her.*

*For these reasons, I am upholding Ms B's complaint."*

Both parties responded accepting my provisional decision.

Shop Direct clarified that it did not believe it hadn't provided our Investigator with inaccurate information. It explained that prior to lending it conducts checks with one particular credit reference agency, which didn't show any county court judgment balance. It said during the life of the accounts it also considered information from a further credit reference agency – which included the information about the county court judgment.

### **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.

I'd like to thank Shop Direct for the clarity about the checks it conducts prior to offering an account. As both parties accepted my decision, I've seen no reason to reach a different conclusion.

### **Putting things right**

To put things right, Shop Direct should liaise with the third party debt collection agency to transfer the debt back to themselves. It should then:

- Rework the accounts removing all interest, fees, charges and insurances (not already refunded).
- If the rework results in credit balances, these 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 regarding the accounts from Ms B's credit file.
- Or, if after the rework there is an outstanding balance, Shop Direct should arrange an affordable repayment plan with Ms B for the remaining account. Once Ms B has

cleared the balance, any adverse information in relation to the account should be removed from her credit file.

\*HM Revenue & Customs requires that Shop Direct deduct tax from any award of interest. It must give Ms B a certificate showing how much tax has been taken off if she 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**

My final decision is that I uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 19 January 2024.

Frances Young  
**Ombudsman**