DRN-4750182

Complaint

Mr C has complained that Shop Direct Finance Company Limited (trading as "Very") irresponsibly provided him with a catalogue shopping account and limit increases.

Background

This complaint is about a catalogue shopping account Very initially provided to Mr C in January 2019. Mr C was initially given a credit limit of £400. Mr C's credit limit was then increased on four occasions at the following times:

September 2019 - £900
April 2020 - £1,000.00
October 2020 - £1,500.00
May 2021 - £2,000.00

One of our investigators looked at everything provided and didn't that proportionate checks would have shown Very that it shouldn't have provided this account or the credit limit increases. So he didn't think that the complaint should be upheld. Mr C disagreed with our investigator's conclusions and asked for an ombudsman's review of the complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I've decided not to uphold Mr C's complaint. I'll explain why in a little more detail.

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.

Very needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr C could afford to repay what he 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 amounts and the consumer's income and expenditure.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that Very should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I've kept all of this in mind when deciding Mr C's complaint.

Mr C's account was opened in January 2019 with a credit limit of £400. The catalogue shopping account Very provided Mr C with was a revolving credit facility. This meant that Very was required to understand whether Mr C could repay £400 within a reasonable period of time. I understand that Very carried out a credit check before initially agreeing to provide this account. Very has confirmed that it picked up a defaulted account on the credit search but it didn't know when this had taken place.

Nonetheless, what is important to note is that a credit limit of £400 required low monthly payments in order to clear the full amount that could be owed within a reasonable period of time. I accept that Mr C might have had a default recorded on his credit file at the time. But this in itself does not mean that this credit limit was unaffordable. And I've not been provided with anything to show Mr C's circumstances were such that I could reasonably conclude he didn't have the funds to make the low monthly payment required for this credit limit.

As this is the case, I'm satisfied that it wasn't unreasonable for Very to have agreed to this account. And I find that Very didn't treat Mr C unfairly when it initially opened Mr C's account with a credit limit of £400 in January 2019.

As I've explained in the background section of this decision, Very increased Mr C's credit limit on four occasions until it eventually reached £2,000.00 in May 2021. The first of two of these limit increases were modest in that the maximum amount Mr C could owe by the time of limit increase two was £1,000. Furthermore, for the second limit increase Mr C was only being granted a further £100 and there is an argument for saying that this increase was not significant so there was no need for a further assessment at this stage.

In any event, I wouldn't have expected Very to have done too much more for the first two increases than it did when determining whether to initially provide the account. And, for much the same reasons, my findings in relation to these limit increases are the same as those for when the account was originally opened.

However, by the time of the third limit increase in October 2020, Mr C's credit limit was being increased to £1,500.00. So I would have expected Very to have found out more about Mr C's income and expenditure (particularly about his regular living expenses) before providing this and any further credit limit increases.

As Very has been unable to evidence having done this in this instance, I don't think that the checks it carried out before it provided the October 2020 and May 2021 limit increases were reasonable and proportionate.

Where a firm failed to carry out reasonable and proportionate checks before providing credit or increasing the amount available to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information Mr C has provided to get an idea of what Very is likely to have learned had it carried out further enquiries into Mr C's living expenses.

In particular, I've looked at the current account statements Mr C has provided. In doing so, I accept that Mr C's actual circumstances may not been reflected in the information he may have provided and that his account statements show that he was overdrawn by relatively modest amount. But it doesn't look like this was because he wasn't in a position to meet his commitments.

Indeed the bank statements provided show that Mr C was receiving regular funds and when his regular living costs and monthly expenditure are deducted from what he received, Mr C does appear to have enough in funds left over to make the increased repayments needed for the limit increases offered. So I don't think that Very asking Mr C for more information on his living costs would have led it to conclude that the October 2020 and May 2021 credit limit increases were unaffordable.

Therefore, having carefully considered everything, I've not been persuaded that proportionate checks would have shown that Very that it shouldn't have initially provided Mr C with a catalogue shopping account, or any of the limit increases it did.

So overall and having carefully considered everything, I've not been persuaded that proportionate checks would have shown that Very that it shouldn't have provided this account, or any of the subsequent credit increases to Mr C. And I'm therefore not upholding Mr C's complaint. I appreciate this will be very disappointing for Mr C. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 10 June 2024.

Jeshen Narayanan
Ombudsman