

## The complaint

Mrs E complains that Shop Direct Finance Company Limited irresponsibly gave her two running account credit agreements she couldn't afford.

## What happened

In 2016, Mrs E applied for a catalogue shopping account with Shop Direct. She was given an initial credit limit of £1,000. The limit was increased eight times until it reached £5,000 in October 2021. Mrs E also applied for a second catalogue shopping account with Shop Direct in November 2021, she was given a credit limit of £1,000 on this account, bringing the total amount of credit provided by Shop Direct to £6,000.

In 2022, Mrs E complained to Shop Direct to say that the accounts should not have been given to her. She said appropriate affordability checks weren't completed before lending to her and if they had been Shop Direct would have seen she couldn't afford the credit.

Shop Direct responded to say that it didn't think it had acted unfairly when lending to her. It said it had completed affordability checks which didn't reveal any concerns about her ability to repay the borrowing.

I sent Mrs E and Shop Direct my provisional decision on 22 November 2023. I explained why I thought the complaint should be upheld. I said:

*Prior to lending to Mrs E, Shop Direct needed to complete proportionate affordability checks to ensure the lending would be affordable and sustainable for her. It also needed to do this each time it sought to significantly increase the credit it was providing to her. There isn't a set list of checks it needed to complete each time, as what is considered proportionate will vary with each lending decision. In deciding what was proportionate, Shop Direct needed to take into account things such as (but not limited to): the amount of credit, the cost of credit, the size of any regular repayments and Mrs E's specific circumstances.*

*Shop Direct doesn't have much information about the application or checks it completed for the first account and what it has provided has been contradictory in places. It says that it 'verified' Mrs E's income to be £21,000 per year but has provided no supporting evidence to demonstrate how it obtained this information or verified it.*

*It has also provided copies of its credit checks both for the account opening and for each month following that. However, the information for the checks completed at account opening (which are limited) appear to suggest Mrs E had over £45,000 in credit card limits when the checks it did each month after the application show her credit card limits to be around £3,800. Shop Direct in response to our investigator's assessment said it could not have seen the figure of £45,000, yet it has supplied it to us. All of this means I can place almost no weight on the evidence Shop Direct has provided about the checks it did at account opening because not only is it contradictory, but it appears Shop Direct are unclear about what it has even seen*

and provided.

*Mrs E's evidence appears to be equally contradictory. Shop Direct says that in her initial complaint Mrs E said that she earned between £1,500 and £2,000 per month when applying for the first account. But Mrs E has provided copies of her bank statements from around the time which suggest her income was around half this figure. So, it's unclear whether Mrs E has provided incomplete or inaccurate information to our service or did so as part of her initial complaint to Shop Direct.*

*I'm mindful that the initial credit limit was £1,000 and that it was a running account catalogue shopping facility. This means Mrs E wasn't free to use the credit as she wished – she was limited to using it at a particular retailer. I've also noted that Mrs E was accepted for a joint mortgage around one month after entering into this credit agreement (to a value of around £180,000). The affordability checks conducted for a mortgage are significantly more thorough than what might have been expected for Shop Direct's facility.*

*It appears Mrs E's existing credit card facilities at the time of the application for the first account were around £3,800. There appears to have been no evidence of repayment difficulties on her credit file either. With the added context of her successful mortgage application shortly afterwards, I find it unlikely Mrs E's financial circumstances were in such a place that providing her with a £1,000 credit limit for a catalogue account was unreasonable.*

*Therefore, even if I thought Shop Direct's affordability checks had been insufficient for the account opening, I've not seen anything to make me think that more detailed checks would likely have led to a different lending decision. While Mrs E has provided copies of her bank statements from around the time, I've not seen anything in those that would indicate a limit of £1,000 was unaffordable. I don't therefore think Shop Direct acted unfairly in opening the first account.*

*The credit limit was increased to £1,500 in February 2017. The only material change I can see in Mrs E's financial circumstances from the credit check Shop Direct completed was the inclusion of her monthly mortgage repayment (which she was sharing with her partner). This effectively increased her monthly outgoings by an additional £220. In that time Mrs E had made a small number of purchases on her Shop Direct account, most of which had been under a buy-now-pay-later arrangement. She'd only used around two thirds of the available limit and made her payments on time. I don't think there was anything within the checks that Shop Direct completed that ought to have caused it concern about Mrs E's ability to repay a larger limit of £1,500. I therefore think it acted fairly when it increased the limit the first time.*

*The limit was increased to £2,000 in September 2017. At this time Shop Direct's credit checks indicated a number of concerning factors. It could see that Mrs E had been regularly going over her credit limits on her credit cards. The number of unsecured credit commitments had also slightly increased and what it calculated as her regular monthly debt repayments had almost doubled since the last limit increase only around six months earlier.*

*Shop Direct's own checks indicated that Mrs E was likely spending around half of her monthly income on repaying debts. Based on all of this, I think it ought to have completed more robust affordability checks, including verifying her income and finding out more about her committed expenditure.*

*Mrs E has provided copies of her bank statements from around this time in 2017. She has provided statements from two different accounts and as I've only seen two current accounts on her credit file, I'm satisfied these likely contained her only sources of income. Mrs E earned around £930 per month which was made up of a combination of employed earnings and benefits. As Shop Direct's own checks indicated that her monthly credit commitments at this time were likely to be around £769, I think any reasonable attempts to appropriately verify Mrs E's income would likely have led Shop Direct to conclude that further credit would be unaffordable for her. I therefore think it made an unfair lending decision when it increased her limit to £2,000.*

*For completeness, I think it acted unfairly with each subsequent limit increase too, as I think reasonable and proportionate checks at those intervals (including when it opened the second account) would likely still have shown the lending to be unaffordable to her. While I accept that over the course of the lending relationship with Shop Direct, Mrs E had few missed payments and on occasion cleared the entire balance in full (on four occasions she paid in excess of £1,000, including one payment of £4,500), this doesn't mean she was financially secure.*

*Mrs E's income did increase to around £1,500 much later, but she also continued to borrow more from other lenders. The large payments Mrs E made to Shop Direct appear to coincide with her taking out loans from other providers. So, these weren't funds she had, but funds she had borrowed from elsewhere resulting in her overall debt increasing.*

*Over the course of the lending relationship, according to Shop Direct's own credit checks the number of live credit accounts Mrs E held went from 5 (when she opened the first account) to 25. The amount she needed to repay and the amount she owed to creditors also exponentially increased. So, while she continued to maintain payments with Shop Direct, I can't agree that there were no signs of financial difficulty present on the credit checks it completed and any reasonable further enquiries would always likely have shown further borrowing to be unaffordable to her.*

Both Mrs E and Shop Direct accepted my provisional decision and had nothing further to add.

### **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.

As neither party had any further comments or evidence to provide, I've seen no reason to reach a different conclusion to the one I reached in my provisional decision. I'm therefore satisfied that Shop Direct acted unfairly when it increased the credit limit on Mrs E's account to £2,000. It should therefore put things right.

### **My final decision**

For the reasons given above, I uphold this complaint and direct Shop Direct Finance Company Limited to:

- Re-work account one as if the limit had never been increased above £1,500. This means refunding any interest (including buy-now-pay-later interest), fees, charges and insurances (not already refunded) that were charged as a result of the balance exceeding £1,500.

- Re-work account two refunding all interest (including buy-now-pay-later interest), fees, charges and insurances (not already refunded).
- If the re-work results in Mrs E having paid back more than she borrowed, then any overpayments should be refunded to her. Shop Direct should add 8% simple interest per year on any refund from the date of each overpayment to the date of settlement. It should also remove any adverse information it has recorded on her credit file since September 2017.
- Or, if after the re-work there is still a balance outstanding, then Shop Direct should agree an affordable repayment plan with Mrs E for the outstanding amount. Once Mrs E has repaid the capital Shop Direct should remove any adverse information it might have recorded on her credit file since September 2017.

If Shop Direct considers tax should be deducted from the interest element of my award, it should provide her with a certificate showing how much it has taken off so she can reclaim that amount, if she is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs E to accept or reject my decision before 3 January 2024.

Tero Hiltunen  
**Ombudsman**