

The complaint

Mrs G complains that Shop Direct Finance Company Limited irresponsibly gave her a running credit account she couldn't afford to repay.

What happened

In late 2017, Mrs G applied for a running credit account with Shop Direct. She was given an initial credit limit of £400. The credit limit was increased eight times until it reached £2,150 in October 2020.

Mrs G complained in 2023 to say that the account and subsequent limit increases shouldn't have been given to her. She said that she wasn't employed when she applied for the account and had existing debts elsewhere. She said that if appropriate checks had been done Shop Direct would have seen the account was unaffordable to her. Shop Direct didn't agree it had acted unfairly in lending to her.

I sent Mrs G and Shop Direct my provisional decision on 28 December 2023. I explained why I wasn't planning to uphold the complaint. I said:

Before lending to Mrs G, Shop Direct needed to ensure it completed proportionate affordability checks, including when it significantly increased her credit limit. What is considered proportionate will vary with each lending decision. In deciding what checks to complete with each lending decision, Shop Direct needed to take into consideration things such as (but not limited to): the amount of credit, the size of any regular repayment, the cost of credit and the consumer's circumstances.

As part of the application, Mrs G declared that she was a 'homemaker' with an annual income of around £9,000. Shop Direct's credit checks showed that she had arrears showing on her credit file in 8 of the previous 24 months. It also showed Mrs G had opened three new credit accounts in the previous six months and that she held 10 open credit accounts in total.

While Shop Direct were only proposing to give a relatively low credit limit of £400, I don't think the affordability checks it completed were proportionate. Mrs G's declared income was low, she had a recent history of arrears and a relatively large number of credit commitments especially in the context of her low income. I think proportionate checks ought to have included verifying her income and getting a better understanding of her committed expenditure.

Mrs G has provided copies of her joint account bank statements and has told us her household income was around £2,000 per month. She says her monthly outgoings exceeded this figure. However, the bank statements she's provided suggest her monthly household income was around £2,100 and that her committed outgoings didn't exceed this figure. From what I've seen, had Shop Direct completed proportionate affordability checks, it would most likely have seen that a limit of £400 appeared affordable. I don't therefore think it acted unfairly in opening the account.

The limit was increased eight times until it reached £2,150 in October 2020. Given what Shop Direct knew about Mrs G's circumstances, I consider that proportionate checks at each increase ought to have included verification of Mrs G's income and asking her about her regular committed expenditure.

I've not been provided with a copy of the credit checks Shop Direct did prior to each limit increase, nor has Mrs G provided a copy of her credit file. However, her bank statements show that she appeared to be maintaining her repayments towards her existing credit commitments between the account opening and the final limit increase in October 2020. She also maintained her Shop Direct account during that time and regularly paid slightly above the minimum payment.

I can see that Mrs G was taking out new credit commitments, but the activity on her joint account didn't show any clear signs of financial distress during that time. While the joint account did go overdrawn by around £300 each month before a salary was paid in, this had been the same since before the Shop Direct account was opened. The account was never overdrawn for long and the household income appeared to be able to service all of their outgoings.

So, I've not seen anything to persuade me that the Shop Direct account opening or any of the subsequent limit increases were either unaffordable for Mrs G or caused her financial difficulty. Even if Shop Direct had completed more thorough checks at each limit increase, I don't think it would or should have reached a different lending decision.

I've seen that Mrs G was given a three month payment break in the month following the final limit increase. A further three month payment break was given in early 2021. Because of this her balance exceeded her credit limit. Her balance reached around £2,650 in May 2021, before it began to decrease again. Mrs G paid off almost £1,700 in August 2021 and her balance has been steadily decreasing since.

This shows that Mrs G may have experienced some financial difficulty shortly after the final credit limit increase (I haven't seen her statements beyond that date). However, it seems Shop Direct assisted her by approving two lots of payment breaks. Further, when those payment breaks came to an end, Shop Direct didn't apply any overlimit fees to help Mrs G pay back what was owed. So, I'm satisfied that Shop Direct responded appropriately and fairly when Mrs G was in financial difficulty.

Shop Direct accepted my provisional decision but Mrs G didn't respond.

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 outcome to the one I reached in my provisional decision. I'm therefore satisfied that Shop Direct didn't act unfairly when it lent to Mrs G and that it responded fairly towards any payment difficulty she experienced later in the lending relationship.

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 Mrs G to accept or

reject my decision before 9 February 2024.

Tero Hiltunen
Ombudsman