DRN-4426125

Complaint

Mr N has complained that Shop Direct Finance Company Limited (trading as “Littlewoods”) irresponsibly provided him with a catalogue shopping account which was unaffordable for him.

Background

This complaint is about a catalogue shopping account Littlewoods initially provided to Mr N in August 2016. Mr N was initially given a credit limit of £500. This limit was then increased on three occasions at the following times:

February 2017 - £1,000.00
August 2017 - £1,500.00
December 2018 - £2,000.00

Having looked at Mr N’s account balances, I can see that he only ever had a balance exceeding £1,000.00 on one occasion. This was for a very short period and only by £4. Therefore Mr N never really used the extra credit limit increases granted from August 2017. In these circumstances, Mr N didn’t lose out as a result of the credit limit increases from August 2017 and so we’ve not looked into the complaint about those matters.

One of our investigators looked at everything provided and didn’t think that Littlewoods should have seen that it shouldn’t have provided this account, or the credit limit increase that Mr N used. So he didn’t think that the complaint should be upheld.

Mr N 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 N’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.

Littlewoods 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 N 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 Littlewoods 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 N's complaint.

Mr N's account was opened in August 2016 with a credit limit of £500. The catalogue shopping account Littlewoods provided Mr N with was a revolving credit facility. This meant that Littlewoods was required to understand whether Mr N could repay £500 within a reasonable period of time.

I understand that Littlewoods carried out a credit check before initially agreeing to provide this account. Littlewoods has provided the output of the credit check and it shows that Mr N might have had difficulty with previous credit accounts in the form of a default. But what is important to note is that a credit limit of £500 required relatively small monthly payments in order to clear the full amount owed within a reasonable period of time. Not all in a lump sum as he might have to do for say a payday type loan.

So I don't think that the presence of adverse information in itself meant that Mr N shouldn't have been lent to. Furthermore, I've not been provided with any clear evidence to show that Mr N circumstances were such that I could reasonably conclude that he didn't have the funds to make the very low monthly payment required for a credit limit of £500.

As this is the case, I'm satisfied that it wasn't unreasonable for Littlewoods to have agreed to this account. And I find that Littlewoods didn't treat Mr N unfairly when it initially opened Mr N's account with a credit limit of £500 in August 2016.

As I've set out in the background section of this decision, Littlewoods increased Mr N's credit limit on three occasions until it eventually reached £2,000.00 in December 2018. And I've explained why I'm only looking at the first of these increases.

By the time of the first limit increase, Littlewoods also had some information on Mr N's repayment record to supplement its credit checks and which it could use to help it form a view on whether it was proportionate to offer a credit limit increase in February 2017. To be clear, I don't think that making minimum payments to an account, which isn't really paying enough to clear an outstanding balance within a reasonable period of time, does mean that it's automatically the case that a borrower can afford additional credit.

However, in Mr N's case while there was an instance of a missed payment, he nonetheless paid amounts in excess of the minimum payment and in line with the amount required for a payment to clear the balance on an increased credit limit within a reasonable period of time, on more than one occasion. Furthermore, Mr N hadn't opened the account and remained at the top of his credit limit either.

So bearing in mind the circumstances here, I don't think that it was unreasonable for Littlewoods to increase Mr N's credit limit to £1,000.00 in February 2017 either.

Overall and having carefully considered everything, I've not been persuaded that Littlewoods shouldn't have provided this account, or that Mr N lost out as a result of the February 2017 credit increase, or any of the other subsequent ones, either. And I'm therefore not upholding Mr N's complaint. I appreciate this will be very disappointing for Mr N. 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 N to accept or reject my decision before 21 February 2024.

Jeshen Narayanan
Ombudsman