DRN-3207942

The complaint

Miss G says Studio Retail Limited ("Studio Retail") irresponsibly lent to her. She has requested that interest and late payment charges she paid on the two accounts from February 2017– being a Studio and an Ace account - be refunded.

What happened

This complaint is about two shopping accounts that Studio Retail provided to Miss G – an Ace account and a Studio Retail account. Both accounts were opened in February 2017 and each had a starting credit limit of £100. They both also had two credit limit increases, in April 2017 and April 2018, reaching a final credit limit of £300.

Studio Retail said it gave Miss G low credit limits for each account and only increased her credit limits when she showed positive payment behaviour in managing her accounts and having checked her overall risk score. It also says it wasn't aware of problems with her accounts until they fell into arrears in April 2019. The outstanding debt on both accounts was eventually sold on to a third party in October 2019.

Our adjudicator partially upheld Miss G's complaint and thought that Studio Retail ought to have realised Miss G wasn't in a position to sustainably repay any further credit by the time she contacted it in September 2018 to advise that she was experiencing difficult personal circumstances. She thought that at that point Studio Retail ought to have frozen both accounts. As Studio Retail has disagreed with what they said, the complaint has therefore been passed to me.

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.

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.

Studio Retail 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 Miss G could afford to repay what she was being lent in a sustainable manner. These checks could take into consideration 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 Studio Retail 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).

When Studio Retail opened these accounts it says there were no signs of financial difficulties based on the checks it carried out. Having reviewed the information that's available, and taking into account the low opening credit limit of £100 she was given for each account, I don't think there's anything to suggest that it would have been unreasonable for Studio Retail to have approved the two accounts. It doesn't look as if Studio Retail asked Miss G about her income, although if it had it may have helped it begin to build a picture of Miss G's financial circumstances.

Our adjudicator explained why she thought Studio Retail had acted fairly in providing all the credit limit increases but also why Studio Retail ought to have frozen the accounts avoiding further spending from September 2018. Studio Retail didn't agree with what our adjudicator said. It said that when Miss G contacted Studio Retail in September 2018 about her Studio account it had flagged her as being a vulnerable consumer. Also, it said Miss G had made only two small purchases after that, so it would have been unfair to suspend her accounts, given that she was continuing to make her monthly payments towards each account. It also says that it gave Miss G a 'breathing space' period to seek help from StepChange after she'd contacted Studio Retail in May 2019. Finally, Studio Retail also said that in August 2019 it agreed a payment plan with Miss G, although she never made the first payment.

I've looked at the overall pattern of Miss G's lending history with Studio Retail, with a view to seeing if there was a point at which Studio Retail should reasonably have seen that further lending was unsustainable, or otherwise harmful, for Miss G. If so, in Miss G's case, that would mean Studio Retail should have realised that it shouldn't have allowed Miss G to continue spending on her accounts. Having done so, and given the particular circumstances of Miss G's case, I agree with our adjudicator that once it had heard from Miss G that her personal circumstances had changed such that she was experiencing financial difficulties, it ought to have responded by freezing both of her accounts.

I say this given that I've seen that Miss G started to regularly miss payments from February 2018, continuing into 2019, leading to a steadily increasing level of arrears. As a result Miss G began to incur fees on her accounts for non-payment. In particular, I see that Miss G had missed two consecutive monthly pavements, for July and August 2018, on her Ace account and the August 2018 payment on the Studio account. I've also seen that following each credit limit increase Miss G used nearly all of her available credit limit.

It follows that by September 2018, when Miss G contacted Studio Retail to advise of personal issues that could impact on her ability to continuing meeting her monthly payments, it ought to have taken proportionate measures to find out more about Miss G's financial circumstances. Had it done so, I think it would likely have seen that that Miss G was struggling to manage the credit she already had and that there was a significant risk that any further spending on her account would lead to her indebtedness increasing unsustainably. So I think the appropriate next step would have been to put a freeze on both accounts. I've seen that Studio Retail have acknowledged in their investigation that offering further support to Miss G might have prevented the debt being sold on.

It follows that I think that Miss G lost out because Studio Retail continued to allow her to spend on her accounts and didn't take appropriate forbearance measures from September 2018 onwards. In my view, Studio Retail's actions unfairly increased and prolonged Miss G's indebtedness by allowing her to use credit she couldn't afford over an extended period of time and the interest being added got her into further debt. So Studio Retail should put things right.

Putting things right – what Studio Retail needs to do

- Rework Miss G's accounts to ensure that from September 2018 onwards all interest or charges be removed, including any buy now pay later interest (being the credit limit in place before that date), to reflect the fact that access to any remaining credit on these accounts shouldn't have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on these accounts once these adjustments have been made Studio Retail should contact Miss G to arrange an affordable repayment plan. Once Miss G has repaid the outstanding balances, it should remove any adverse information recorded on her credit file from September 2018 onwards.

OR

- If the effect of removing all interest, fees and charges results is there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss G, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Studio Retail should also remove any adverse information from Miss G's credit file from September 2018 onwards.†

†HM Revenue & Customs requires Studio Retail to take off tax from this interest. Studio Retail must give Miss G a certificate showing how much tax it's taken off if she asks for one.

Given that it looks like Studio Retail sold the outstanding balances on both accounts to a third party in October 2019, it either needs to buy the accounts back from the third party and make the necessary adjustments; pay an amount to the third party so it can make the necessary adjustments; or pay Miss G an amount to ensure that it fully complies with this direction.

My final decision

For the reasons set out, I'm partially upholding Miss G's complaint. Studio Retail & Company Limited should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 13 April 2022.
Michael Goldberg

Ombudsman