

The complaint

Mrs W has complained that Studio Retail Limited irresponsibly lent to her.

What happened

Mrs W opened a shopping account with Studio Retail in 2011. Due to the time that has passed since then there isn't a record of what her initial account limit was, although we know that by July 2013 it was £500. Over a period of years her credit limit was increased many times until, in December 2015, it was £1,950.

Mrs W says that she couldn't afford the credit and that she ended up in serious debt as a result. Mrs W says that Studio Retail shouldn't have lent to her because she was unemployed. She says when she asked for help Studio Retail continued to keep adding interest and late payment fees.

Studio Retail didn't agree to us looking at anything that happened in relation to Mrs W's account before 5 February 2015. This is because Mrs W had six years to complain about things that went wrong, and she didn't complain until 4 February 2021. Mrs W has agreed to this.

Studio Retail says it did all the necessary checks before it lent to Mrs W – and when it increased her credit limit. Studio Retail says that it acted appropriately and fairly when it knew Mrs W had got into difficulty and that it didn't need to have done anything more. Our adjudicator thought that Mrs W's complaint should be partially upheld. They thought that when Studio Retail increased Mrs W's credit limit in February 2015 and beyond that it should have found out more about Mrs W's financial circumstances and that if it had, it would have seen the credit was unmanageable for Mrs W.

Studio Retail disagreed. It said it had done proportionate checks throughout the life of Mrs W's account and there was no evidence of financial difficulty.

As Studio Retail disagrees the complaint has been passed to me for a decision.

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 and I've taken that into account when considered Mrs W's complaint.

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 Mrs W

could afford to repay what she was being lent in a sustainable manner. These checks could have taken into account a number of different things, such as how much was being lent, the repayment amounts, how quickly the debt was being paid off and Mrs W's income and expenditure. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I can only make findings on the lending from 5 February 2015. But I've looked at the pattern of lending prior to this so I can understand what happened later on. I can see that between July 2013 and December 2014 Mrs W's outstanding balance had been low – under £150. But she hadn't been able to clear it, even though she was making regular payments and she remained indebted over a long period.

Mrs W's credit limit was increased in January 2015 and I agree with our adjudicator that when Studio Retail increased Mrs W's limit further in February 2015 to £1,300, Mrs W hadn't been able to demonstrate that she could manage the higher level of credit.

I think it would have been reasonable for Studio Retail to have found out more about Mrs W's income, costs and expenditure at this point, to make sure she could afford the repay the additional credit in an affordable and sustainable way.

We asked Mrs W to provide copies of her bank statements from 2015. Mrs W told us her only income was about £600 per month from benefits and she wasn't working. Taking into account her likely living costs and outgoings I don't think she had enough spare to repay a balance of £1,300 in a sustainable way and within a reasonable period of time. And I don't think the later increases were suitable for her either.

Mrs W didn't always fully utilise her credit and her highest balance was £1,668. However, although it seems she was able to manage when the balance was low, it seems she would have struggled as it began to increase.

Mrs W missed payments in February, March and April 2016 and incurred administration fees as a result. And while the balance remained under £550 until October 2016, by December 2016 it had increased substantially to over £1,500.

Although Mrs W was making repayments after this it doesn't necessarily mean she was doing this in a sustainable way or that the credit was affordable for her. I think better checks at the time of the credit increases would have revealed they weren't suitable for her.

Mrs W got in touch with Studio Retail in August 2019 to make it aware of her financial situation. I've seen notes that indicate once Mrs W provided Studio Retail of evidence of her difficulties that a payment plan was set up and she didn't incur any more interest or charges. So I think Studio Retail acted fairly once it had been told Mrs W had financial difficulties.

Putting things right

I am partially upholding Mrs W's complaint. To put things right Studio Retail should:

- Remove all interest and charges incurred on the account after 26 February 2015. Specifically, it can only add interest accrued on the balance up to the credit limit of £1,050 which was the credit limit before February 2015. And I think it is fair that no interest and charges are added from October 2019 when the payment plan was set up.
- Work out how much Mrs W would have owed after the above adjustments. Any

repayment made by Mrs W since February 2015 should be used to reduce the adjusted balance.

- If this clears the adjusted balance any funds remaining should be refunded to Mrs W along with 8% simple interest* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Mrs W no longer owes any money then all adverse information regarding this account should be removed from the credit file from February 2015 onwards.
- Or, if an outstanding balance remains, Studio Retail should look to arrange an affordable payment plan with Mrs W for the outstanding amount. If the debt was sold to a third party (which I understand it was), Studio Retail are to either repurchase the debt or liaise with the third-party to ensure the above steps are undertaken. Once Mrs W has cleared the balance, any adverse information should be removed from the credit file.

*HM Revenue & Customs requires Studio Retail to deduct tax from any award of interest. It must give Mrs W a certificate showing how much tax has been taken off if she asks for one. If Studio Retail intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I think Studio Retail Limited acted unfairly when it increased Mrs W's credit limit in February 2015 and on each time after that. To put this right I direct Studio Retail Limited to pay compensation as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 25 May 2022.

Sally Allbeury
Ombudsman