DRN-3423063

The complaint

Miss K says Studio Retail Limited ("Studio Retail"), irresponsibly lent to her. She has requested that the interest and late payment charges she paid on her account be refunded.

What happened

This complaint is about a catalogue account provided by Studio Retail to Miss K. The account was opened in or around October 2009. Unfortunately we don't know the opening credit limit due to the time that has passed since then. We know that in August 2013 the credit limit on the account was increased from £1840 to £1950. There also followed two credit limit decreases, with the credit limit being increased to again in December 2014, this time to £1750, and then again to £1950 in February 2015. After three further decreases, the account balance fell to £990 in December 2016. In December 2017 the account and its outstanding arrears was sold to a third party.

Miss K says that Studio Retail shouldn't have allowed her to open an account given that at the time she was a student with no regular income. She's also unhappy that as her credit limits increased her financial position worsened, leading to her taking on further debt elsewhere.

Our adjudicator thought that Studio Retail ought to have realised that Miss K wasn't in a position to sustainably repay any further credit on either account from August 2013. Studio Retail accepted our adjudicator's findings. However, Miss K asked for the complaint to be referred to me as she has concerns that the compensation may not have been calculated correctly. She has also asked that I review the whole complaint.

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.

Did Studio Retail lend to Miss K irresponsibly?

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 K could afford to repay what she 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 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).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Our adjudicator has set out in some detail why she thought Studio Retail shouldn't have provided Miss K with any additional credit from August 2013 onwards.

Studio Retail is in agreement with our adjudicator's finding, but Miss K has requested that I review the account again.

I've gone back and looked at the overall pattern of Studio Retail's lending history with Miss K, with a view to seeing if there was some other point at which Studio Retail should reasonably have seen that further lending was likely unsustainable, or otherwise harmful. If so, that would mean it should have realised that it shouldn't have continued increasing Miss K's credit limit on her account.

Having reviewed the complaint in detail, I've decided to partially uphold this complaint and on the same basis as our adjudicator. I will explain why.

Studio Retail says that when Miss K opened her account checks were carried out to see if there were signs of financial difficulties and there were no affordability or risk concerns. From what we know about those checks, I don't think there is enough to suggest that it would have been unreasonable for Studio Retail to have approved the account opening. I don't know if Studio Retail asked Miss K about her financial situation or income at the time, which is something that may have helped it begin to build a picture of Miss K's overall financial circumstances. But from what I've seen, if it had there's not enough for me to say that the account wouldn't have been approved.

In August 2013 Miss K's credit limit was increased from £1840 to £1950. But in the previous three months she had already entered into a significant level of debt borrowing with other high cost lenders, totalling over £3000. Bearing in mind that she would have also needed to meet daily living expenditure, it seems likely that her reliance on credit from Studio Retail and other sources meant her borrowing was no longer sustainable by then, leaving her with no or very little disposable income. I therefore think that had Studio Retail carried out reasonable and proportionate checks at this point they likely would have shown or suggested Miss K was in no position to take on extra borrowing.

So I think that Miss K lost out because Studio Retail increased her credit limit in August 2013. I therefore think Studio Retail ought to have realised that there was a significant risk that increasing Miss K's credit limit in these circumstances would lead to her indebtedness increasing unsustainably, worsening her already difficult financial situation.

Is Studio Retail paying enough redress?

Miss K isn't convinced that Studio Retail has calculated the total redress due to her correctly. She says she would have expected to be refunded a greater level of interest and charges than the figure put forward by Studio Retail. She is also unhappy that Studio Retail increased her credit limit again in December 2014 and then again in February 2015.

Studio Retail has told us how it calculated the redress and confirmed that it has taken into account each occasion when the balance exceeded the credit limit of £1840, being the credit limit in place prior to 1 August 2013. It also confirmed that it had refunded two late fees that were incurred after that date.

Whilst I appreciate that Miss K expected the level of redress ought to have been more, I think Studio Retail's offer of redress compensation has been calculated correctly and in accordance with the way we expect businesses to make such calculations when we make a finding that compensation ought to be paid due to irresponsible lending. Given that I'm in agreement with our adjudicator's findings and Studio Retail's calculation which I consider has been prepared in accordance with our redress approach in these cases, I agree that Studio Retail should put things right on that basis.

It follows that Studio Retail should put things right.

Putting things right – what Studio Retail needs to do

- Rework Miss K's account to ensure that from 1 August 2013 onwards interest is only charged on balances up to the total credit limit of £1840, including any buy now pay later interest, (being the credit limit that was in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and

- If an outstanding balance remains on the account once these adjustments have been made Studio Retail should contact Miss K to arrange an affordable repayment plan. Once Miss K has repaid the outstanding balance, it should remove any adverse information recorded on Miss K's credit file from 1 August 2013.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss K, 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 K's credit file from 1 August 2013 onwards.†

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

Given that Studio Retail sold the outstanding balances on the account to a third party in December 2017, it either needs to buy the account 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 K an amount to ensure that it fully complies with this direction.

My final decision

For the reasons set out, I’m partially upholding Miss K’s complaint. Studio Retail 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 K to accept or reject my decision before 20 May 2022.
Michael Goldberg
Ombudsman