DRN-3726518

Financial Ombudsman Service

The complaint

Miss N complains through her representative that Studio Retail Limited trading as Studio irresponsibly provided her with, and increased the credit limit on, a mail order account so she couldn't afford the repayments. She also complains that it raised the interest rate to an unacceptable level without giving her notice.

What happened

Studio provided Miss N with a credit account in November 2018 (Miss N disputes this and says it was earlier). The initial credit limit was £150. This was raised up to the following levels on the following dates :

5/1/19 £200

5/5/19 £250

5/7/19 £300

5/11/19 £450

5/12/19 £750

5/4/20 £875

5/11/20 £1,600

5/12/21 £1,675

Miss N paid the full account up before January 2019 on a monthly basis. After that she started being charged interest. The account balance never exceeded the £750 credit limit in December 2019, and following her complaint to Studio in February 2022, it suspended all orders on the account. Miss N says that because she was on benefits for the whole time Studio should never have increased the credit limit without carrying out proper checks, and now she has trouble keeping up with the payments. She believes the interest rate (currently 49.9% APR) is extortionate and has increased by over 20% since she took out the account.

Our investigator said that Studio carried out proportionate checks to set the first credit limit. But from October to December 2019 when the limit was raised to £750 it should have carried out further checks on Miss N's income and expenditure to assess the affordability of those increases. However Miss N had maintained her account in good order and didn't miss any payments. She wasn't able to produce any bank statements from the time of the increases or a credit report to show that the limits were unaffordable.

For the credit limit increases from after December 2019, our investigator said she hadn't looked at these because Miss N hadn't exceeded the £750 limit, so hadn't incurred any interest charges above that limit.

Miss N disagreed, pointing out that the interest rate on Studio's website was 10% less than what she was being charged and that as it was at fault for not doing the checks it should compensate her. Our investigator pointed out that the website showed a representative, not a guaranteed rate.

Miss N disagreed and the matter has been passed to me for further consideration.

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.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Studio complete reasonable and proportionate checks to satisfy itself that Miss N would be able to repay the credit advanced in a sustainable way?
- If not, would those checks have shown that Miss N would have been able to do so?
- Bearing in mind the circumstances at the time of each application, was there a point where Studio ought reasonably to have realised it was increasing Miss N's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?

As regards the date of the start of the account, Miss N says she had a credit account in 2017 with a credit limit. Studio's records start in November 2018, when there was a £0 balance. Though I've noted that its spreadsheet is headed "statements post 8/10/2017". So it seems likely that Miss N had a Studio account from at least October 2017 and either didn't have a credit account until November 2018 or she didn't use any credit until after that date. Either way the initial limit was £150. From the way these sorts of accounts are usually run it seems unlikely that that limit would have stayed the same for over a year. However it doesn't really have any bearing on Miss N's complaint when that initial limit was set.

We don't have much information from the setting of the initial limit. The initial check appeared to show that Miss N didn't have any defaults or missed payments on her record, nor any CCJs (County Court Judgments) and a low level of credit. Based on that initial limit I think the checks done were proportionate and that it was reasonable to assess that Miss N could afford the payments associated with that limit.

The limit was increased by stages of £50 until November 2019 and December 2019 when it was increased respectively to £450 and £750. I do think that by this time Studio couldn't rely on just an external check to assess Miss N's credit score and its internal checks of her account status. It should have carried out further checks including an income and expenditure check and verification of Miss N's income.

But I can't assume that Studio was at fault without further information about Miss N's assertion that she couldn't afford the credit. I've noted that she was on benefits though this wouldn't be a reason on its own to decline credit. Her account was kept in good order. For example she wasn't charged any interest from August 2019 until June 2020 and from November 2020 until November 2021. This showed that she was managing to pay for any items bought without having to rely on the credit.

Further we have asked Miss N to provide bank statements and a credit report. Either of these might have shown that she was in financial difficulties. But she hasn't been able to provide these. She has shown us some screenshots of her current credit record but these just show that she does have some accounts e.g. utility accounts, another online shopping account and a telecommunications account. They don't show that Miss N was in any difficulties at the time of the credit limit increases.

From the information I've seen even if Studio had carried out further checks I can't say that those checks would have shown that the credit was unaffordable, especially in light of the way Miss N had maintained her account. To be clear we can ask businesses to pay compensation or take other action if we find them to be at fault and it can be shown that the consumer has lost out, but we don't have the power to fine or impose penalties on them.

As for the credit limit increases after December 2019 these are largely academic as Miss N's account has never had balances in excess of the December 2019 limit. However the same provisos apply to those increases that is whilst Studio should have carried out more checks I haven't seen evidence that those limit increases were unaffordable.

As regards the interest rate, Studio has shown us that this was 49.9% APR and was shown on statements from at least February 2019, and the January 2019 interest charge based on the previous balance appears to bear this out. So, this doesn't bear out Miss N's contention that she was charged a 19% rate initially. Whilst Studio's website shows a "*representative rate*" of 39.9% this doesn't mean it's charged in all cases. I'm satisfied that Miss N was advised of the interest rate charged and of the increases in the credit limit.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 5 January 2023.

Ray Lawley
Ombudsman