

## **The complaint**

Mr H complains that Studio Retail Limited irresponsibly increased the limit on his credit account such that he couldn't afford the repayments.

## **What happened**

Mr H applied for and was provided with a credit account by Studio in December 2020. The initial limit was £300. This was decreased to £100 in February 2021 following a late payment charge. The limit was then increased to £600 in May 2021 and then to £850 in July 2021. Mr H subsequently got into difficulties over the payments, and complained to Studio in February 2022. At that time he disclosed that he had mental health and personal family problems which made it difficult for him to manage his finances. He doesn't dispute that the initial credit limit was affordable based on his declared income at the time.

Studio said that it carried out detailed checks of Mr H's credit history and used ONS (Office for National Statistics) data to estimate his disposable monthly income. It also considered the data in his application. The account was provided on the basis that Mr H was eligible for credit of up to £1,600, although no further increases were made after July 2021. It monitored his credit score and provided the increases when Mr H was eligible. He opted in for automatic increases when opening the account but could always opt not to receive them when he was notified in his monthly statement. It wasn't aware of Mr H's mental health problems until he told it in February 2022, and had now noted him as vulnerable. It has asked him to complete an income and expenditure check and for details of his mental health problems if he wanted it to consider writing off any of the balance owing.

Mr H said that Studio should have carried out proper checks, if it had it would have seen that he was subject to an IVA (Individual Voluntary Arrangement) and had been since October 2018. He didn't feel it appropriate to reveal any of his personal health details.

Studio said this information wasn't seen on the credit report but noted that the IVA was registered against a former address, so it wouldn't have appeared on the credit report. The account is currently on hold, with no interest accruing.

On referral to the Financial Ombudsman Service, our investigator said that at the time of the second credit limit increase the checks Studio carried out weren't proportionate. However as Mr H wasn't able to provide any information about his financial circumstances at the time of the increases she was unable to uphold the complaint.

Mr H disputed this and said that it wasn't up to him to prove the credit was unaffordable. He asked for an ombudsman's decision.

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 Mr H would be able to repay the credit advanced in a sustainable way?
- If not, would those checks have shown that Mr H 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 Mr H's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?

First of all I think the first time Studio knew of Mr H's personal health issues was when he contacted it in February 2022. I've referred above to the checks carried out which needed to be reasonable and proportionate. There are no prescribed checks that a business must carry out but it needs to be able to assess that the applicant will be able to pay the credit advanced by at least the minimum monthly payment which I understand in this case was 6% of the balance. It can't know unless it is told whether the applicant is suffering from any illness which might affect their ability to run the account.

Here Studio carried out a credit check when Mr H applied for the account. It assessed that on an annual income of £25,000 he was able to afford the initial credit limit and provisionally that he could be advanced credit of up to £1,600. The initial limit was £300 - this would have meant a payment of up to £18 a month. Mr H doesn't dispute that.

I've noted that the limit was dropped to £100 in February 2021 due to a late payment charge, then increased in May 2021 to £600. To assess whether to apply the credit limit increases Studio monitored the account and checked Mr H's credit score with a credit reference agency. It also assessed that the account was now in good order. I think bearing in mind the amount of credit and the monthly payment which would have been £36 if the maximum amount of credit was used, the checks carried out were proportionate and the decision to increase the limit was reasonable. At that stage his account balance was less than half the limit.

I understand that the same checks were carried out for the limit increase in July 2021. I've considered whether Studio should have carried out further checks. The account was still being run properly, and Mr H's credit score was sufficient to be able to apply the increase. At that stage he was still using less than half the £600 limit, and it didn't exceed £364 until November 2021. I can't see anything that would have alerted Studio to carry out further checks at that stage.

With regard to the credit checks being applied automatically, Studio is entitled to do this, as long as it notified Mr H. Having seen the statements sent to him at the time of the relevant increases I'm satisfied that it notified Mr H and he was given the opportunity to not accept the increase.

I understand that Mr H was subject to an IVA, which had started in October 2018. This was registered to a former address, so didn't appear in the credit check Studio carried out. It wouldn't have provided the credit if it had known about this. Unfortunately credit checks don't always show all the information needed, especially if a former address is not known about. Mr H would have known about his IVA and it would be reasonable to expect him to tell

Studio about it. It wouldn't necessarily have been a bar to obtaining further credit, that depends on the terms of the IVA. But on the evidence I've seen, Studio wouldn't have known about the IVA.

Our investigator asked Mr H to provide copies of his bank statements. Mr H says these are on a former account that is now closed. While I don't think that would be a bar to obtaining them, he nevertheless feels it isn't for him to show that the loan was affordable. I agree, but on the evidence produced by Studio I think it was justified in assessing that the loan was affordable. If Mr H disputes this then it is up to him to show this

I understand that Mr H is anxious that this matter is still outstanding and that Studio has placed markers on his credit record. I see the account was over the limit from December 2021 to January 2022. It now stands at just under the £850 limit and has been frozen since February 2022. I can understand Mr H's reluctance to produce evidence of his ability to pay. He also feels that Studio isn't entitled to see any medical evidence. I can understand his point of view but if Studio is going to consider a payment arrangement or even writing off any of the balance it is entitled to see evidence to justify that. It has to treat vulnerable customers fairly. I think it has treated Mr H fairly but I would urge him to get in touch with Studio to sort out any future payment arrangement. He has been given details of organisations that offer help in these situations and he may want to contact one of them.

However on the evidence I've seen I 'm not persuaded that I should uphold this complaint.

### **My final decision**

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 29 December 2022.

Ray Lawley  
**Ombudsman**