

The complaint

Mrs M has complained that Studio Retail Limited, trading as Studio, irresponsibly lent to her.

What happened

Mrs M opened a shopping account with Studio Retail in November 2019. Her account limit was initially low - £300. Over the course of the next 11 months Mrs M's account limit was increased three times until, in October 2020, it was £1,000.

Mrs M says that Studio Retail shouldn't have lent to her. She says that Studio Retail should have consulted her credit file and asked her more questions to find out if the credit was affordable for her.

Studio Retail says it did all the necessary checks before it lent to Mrs M – and when it increased her credit limit.

Our adjudicator thought that Mrs M's complaint should be partially upheld. They thought that the initial credit given to Mrs M was acceptable, but that by the time her credit was increased, Studio Retail didn't act fairly or reasonably in doing so.

Our adjudicator said that Studio Retail should pay back interest and charges it made as a result of the credit that was unfairly extended to Mrs M.

Studio Retail didn't agree. It said that Mrs M didn't miss any payments until after the last increase in her credit limit and that the management of her account was '*splendid*'. As Studio Retail didn't agree, the case has been passed to me to make 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 M'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 M 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 Mrs M'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 Mrs M. These factors include:

- Mrs M's income, reflecting that it could be more difficult to make any repayments to a given credit amount from a lower level of income;
- 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 frequency of borrowing and the length of time Mrs M had 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.

When Mrs M opened her account in November 2019, Studio Retail has told us there were no signs of financial difficulties based on the checks it did. Having reviewed the checks, I don't think there is anything to suggest that it would have been unreasonable for Studio Retail to have approved the account. Mrs M declared an annual salary of £16,000. In the three months before opening the account Mrs M had no arrears or defaults, no CCJs and was not in bankruptcy or other debt arrangement. Studio Retail says it was unable to accurately verify Mrs M's income but based on Office of National Statistics data it estimated Mrs M had a disposable income of £103 a month. Mrs M showed that Mrs M had a significant number of external credit accounts including five active revolving credit accounts and that she was relatively over-indebted. On this assessment Studio Retail concluded that it could offer Mrs M a credit limit of £300 – and then £600 in March 2020. Sustainable repayments on this if the whole credit limit was utilised would have been in the region, it says, of £18 a month initially and by extension around £36 a month at the point of the first credit limit increase.

I think on the information available that Studio Retail did sufficient checks at the point of account opening and first credit limit increase. I think Mrs M's small disposable income was on the cusp of being insufficient to manage sustainable repayments, but – on balance – I think Studio Retail didn't act unfairly in providing the relatively small credit limit on account opening.

Two months later, Studio Retail increased Mrs M's credit limit to £750 – an increase of 150% on the original credit limit provided. I think given the low disposable income Studio Retail knew Mrs M had, Studio Retail should have had sufficient information for it to consider that it would have been proportionate to have found out more about Mrs M's committed expenditure, such as her rent, council tax and utility bills. I can't be certain what Studio Retail would have found out had it done those checks, but I think it's reasonable to take into account information Mrs M has provided about her finances in the form of her bank statements from the time.

In the three months leading up to the credit limit increase in May 2020 the bank statements show that Mrs M's committed expenditure, including rent, food, utilities, insurances and servicing other debts, exceeded her net monthly income.

Studio Retail points to the fact that Mrs M didn't contact it to inform it of her financial difficulties. It also notes that that she had positively accepted the first increase in credit limit and hadn't opted out of further increases. But this does not detract from the fact that Studio Retail had an obligation to conduct reasonable and proportionate checks before offering the increase in credit. I consider that Studio Retail did not do this and, if it had, it would have realised Mrs M could not afford any more credit. I don't think it was fair or reasonable for

Studio Retail to have increased the limit to £750 in May 2020 and I think Mrs M lost out as a result of what Studio Retail did wrong.

Putting things right

I think it's fair and reasonable for Studio Retail to refund any interest and charges incurred by Mrs M as a result of the credit unfairly extended to her. I don't think the limit should have been increased from 26 May 2020 onwards, therefore Studio Retail should rework the account and:

- remove any interest and charges incurred after 26 May 2020 as a result of any increases (including any buy now pay later interest). That is, Studio Retail can only add interest accrued on the balance up to the credit limit of £600 – this being the credit limit before 26 May 2020.
- Studio Retail should work out how much Mrs M would have owed after the above adjustments. Any repayment Mrs M made since 26 May 2020 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Mrs M along with 8% simple interest per year* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Mrs M no longer owes any money then all adverse information regarding this account should be removed from the credit file from 26 May 2020.
- I understand that as of 29 March 2022 Mrs M had an outstanding balance. Studio Retail should treat Mrs M fairly if she continues to have difficulty meeting the repayments. If Mrs M feels she has been treated unfairly she must discuss matters first with Studio Retail and this service can consider this as a separate complaint if she is unhappy with their response.

*HM Revenue & Customs requires Studio Retail to deduct tax from any award of interest. It must give Mrs M a certificate showing how much tax has been taken off if she asks for one. If it 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 acted unfairly when it extended further credit to Mrs M on 26 May 2020. To put this right, I direct Studio Retail & Company Limited to pay compensation as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 9 January 2023.

Sally Allbeury
Ombudsman