

The complaint

Miss R has complained that Studio Retail Limited irresponsibly lent to her.

What happened

Miss R opened a shopping account with Studio Retail in 2010. At that point her credit limit was £1,570. It was increased once in December 2016 by £380 to £1,950.

Miss R says that she couldn't afford the credit limit increase in 2016 and that she ended up in serious debt as a result. She says she was borrowing from elsewhere to meet her repayments. Miss R says that Studio Retail shouldn't have lent to her because she had a very low income. Miss R also says that Studio Retail didn't deal with her fairly when she got into financial trouble.

Studio Retail says it did all the necessary checks before it increased Miss R's credit limit and that it acted appropriately and fairly.

Our adjudicator thought that Miss R's complaint shouldn't be upheld. They thought that when Studio Retail increased Miss R's credit limit in December 2016 that it should have found out more about Miss R's financial circumstances and that if it had, it would have seen the increased credit was unmanageable for Miss R. But as Miss R never used that additional credit there was no compensation owed.

Miss R did not agree, so 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 Miss R'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 Miss R 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 Miss R'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 consider what happened when Miss R's credit limit was increased in December 2016. Studio Retail has provided a copy of the records it had about Miss R's credit management at that point. I can see from this that Miss R was using relatively little of her

existing credit limit for many months before the increase. At most, she used 51% of the limit. She was making regular payments generally above the minimum required. And her credit scoring in relation to external accounts was unremarkable.

However, I can see that Miss R did miss a few payments in the preceding 17 months. And she told Studio Retail in April 2016 that she had been diagnosed with a serious illness. As a result of this Studio Retail agreed a payment plan for Miss R which continued until November 2016 when Miss R told Studio Retail that her treatment had finished and she was back in full time employment.

I think these circumstances were enough to cause Studio Retail to seek further information about Miss R's financial situation before it approved a credit increase.

Miss R provided her bank statements for the three months before the credit limit increase and I can see that while she appeared to be in credit she was utilising payday loans. These are an expensive form of credit and should have alerted Studio Retail to the possibility she could not manage any more credit. I think if Studio Retail had acted fairly and appropriately with this information that it shouldn't have increased Miss R's credit limit.

However, Miss R's shopping account balance never exceeded her original credit limit of £1,570. This means that although I agree Studio Retail shouldn't have increased her credit limit when it did, Miss R wasn't worse off than she would have been if her credit limit had remained the same. When this service directs compensation, the aim is to put the consumer back in the position they would have been (or as closely as it is possible to do) if the matter complained about hadn't happened. This means that although I agree with Miss R in relation to her complaint I don't think any compensation is due. In circumstances where the increased credit limit is utilised we would usually direct that any interest paid, or fees incurred, on balances above the original limit are refunded with interest. But in Miss R's case that amount is zero. And we would usually direct that any adverse information placed on the consumer's credit file as a result of the increase is removed. Again, in Miss R's case, there was no adverse information placed as a result of the increase.

Miss R has also complained about the way her account was managed when she did get into difficulty. Studio Retail has provided copies of the notes it made when Miss R made contact. It initially agreed a payment plan but when Miss R contacted it in August 2018 to say she was back on track with her financial matters she was asked to provide her income and expenditure details. She didn't send these, and she didn't contact Studio Retail again. Studio Retail made several attempts to contact Miss R by phone to no avail. Eventually, as Miss R was paying less than the minimum amount on her account to ensure she paid it off in a reasonable amount of time, Studio Retail changed her payment plan and sold her debt.

Miss R says that she didn't receive anything from Studio Retail. I can't know for sure whether that was the case, but on the balance of probabilities I am satisfied Studio Retail's contemporaneous notes are an accurate reflection of what happened. And I am satisfied that Miss R didn't make further contact in that time and did not provide the income and expenditure details requested. So, I don't think Studio Retail did anything wrong in relation to these matters.

My final decision

I realise this will be very disappointing for Miss R but while I do consider Studio Retail Limited acted unfairly when it increased Miss R's credit limit in December 2016, Miss R did not lose out as a result and so no compensation is due. And I think Studio Retail acted fairly in the way it managed Miss R's outstanding balance when she got into financial difficulty.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 4 January 2023.

Sally Allbeury
Ombudsman