

The complaint

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

What happened

This complaint is about a Studio Retail shopping account Studio Retail provided to Miss S. The account was opened in July 2017 when Miss S was given an initial credit limit of £80. This limit was increased five times until it eventually reached £1,500 in October 2020. Studio Retail also made four credit limit reductions.

Our adjudicator partially upheld Miss S's complaint and thought that Studio Retail ought to have realised Miss S simply wasn't in a position to sustainably repay any further credit by the time it offered increased Miss S's credit limit in August 2020.

Studio Retail said it carried out appropriate checks and that the credit limit increases (and decreases) were granted based on affordability scoring and checking with credit reference agencies.

As Studio Retail disagrees with our adjudicator, the complaint has been passed to me for an ombudsman's 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.

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 S 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 Miss S'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 Miss S. 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 set out in some detail why he thought Studio Retail shouldn't have provided Miss S with any further credit from August 2020 onwards – the point at which her credit limit was increased for the fourth time, to £550. Our adjudicator did this having received copies of Miss S's bank statements.

Nonetheless in preparing this decision I've looked at the overall pattern of Studio Retail's lending history with Miss S to see if there was a point at which Studio Retail should reasonably have seen that further lending was unsustainable, or otherwise harmful. If so, that would mean Studio Retail should have realised that it shouldn't have continued to increase Miss S's credit limits.

When Miss S opened her account in July 2017, giving her an opening credit limit of £80, Studio Retail says there were no signs of financial difficulties based on the checks it did. Having reviewed the checks, and taking into account the modest opening credit limit of £80 Miss S was given, I don't think there's enough evidence or information to suggest that at this point Studio Retail ought to have carried out better checks before approving opening an account for her.

Going forwards, though, having noted the credit limit increases that followed I agree with our adjudicator that by March 2019, when Miss S was using around two thirds of the available balance of £300 and her limit was then increased to £425, Studio Retail ought to have been taking steps to verify Miss S's income as well as her daily outgoings and level of committed expenditure. By doing so, it would have better understood her financial situation and whether her level of borrowing was at risk of becoming unsustainable.

I've next seen that by August 2020, around seventeen months later, after Miss S had had her credit limit reduced to £410, Studio Retail approved a credit limit increase up to £550. I've seen that Miss S had made four late payments and incurred overlimit charges since the March 2019 credit limit increase. She was also continuing to make only minimum monthly payments. I think by now, given the account history, it would have been proportionate for Studio Retail to find out more about Miss S's income as well as her daily living costs and committed expenditure.

I can't be sure exactly what it would have found out if it had asked. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in the bank statements Miss S has sent us to get an idea of what would most likely have been disclosed.

I've reviewed six months of bank statements leading up to the lending decision. These show that Miss S's net monthly income from her part-time paid employment and state benefits averaged out at around £1,700 per month. Miss S's monthly spending over the period averaged out at around £2,500 and it looks as if she was supplementing her income

with money provided by family members. She was also making regular use of her overdraft facility. I think all this demonstrates that Miss S didn't have enough disposable income to sustainably afford the additional borrowing Studio Retail granted her in August 2020.

It follows that I think better proportionate checks will have likely shown Studio Retail that by August 2020 Miss S was showing signs of having difficulty in managing her account alongside her day-to-day living expenses and other debt commitments.

To summarise, I consider that Studio Retail's actions in further increasing Miss S's credit limit on this account, in August 2020 and later, unfairly prolonged her indebtedness. Miss S was able to continue using a greater level of credit she couldn't afford over an extended period of time, with the result that her indebtedness continued to increase. So I think Studio Retail should put things right.

Putting things right – what Studio Retail needs to do

- Rework Miss S's account to ensure that from 26 August 2020 onwards interest is only charged on balances up to £425, including any buy now pay later interest (being the credit limit 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 S to arrange an affordable repayment plan. Once Miss S has repaid the outstanding balance, it should remove any adverse information recorded on her credit file from 26 August 2020 onwards.

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 S, 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 S's credit file from 26 August 2020 onwards.†

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

My final decision

For the reasons set out, I'm partially upholding Miss S'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 S to accept or reject my decision before 23 March 2023.

Michael Goldberg
Ombudsman