

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 November 2017 when Miss S was given an initial credit limit of £200. This limit was increased eight times until it eventually reached £1,600 in October 2020.

Miss S agreed to a payment plan for her account in April 2021, after getting into difficulty with it. In October 2021, the account was sold on to a third party.

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 from £400 to £500 in July 2019.

Studio Retail said it carried out appropriate checks given the relatively low level of initial credit given. It also said the credit limit increases were granted based on affordability scoring and checking with credit reference agencies.

As Studio Retail disagrees with our adjudicator, the complaint has now been passed to me.

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 the 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 July 2019 onwards, when her credit limit was increased on the fourth occasion, from £400 to £500. Our adjudicator did this having received copies of Miss S's bank statements as well as reviewing her credit report.

Nonetheless in preparing this decision I've looked at the overall pattern of Studio Retail's lending history with Miss S, with a view to seeing 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 November 2017, Studio Retail has told us there were no signs of financial difficulties based on the checks it did. Having reviewed the checks, and taking into account the relatively low opening credit limit of £200 Miss S was given, I don't think there is enough evidence or information to suggest that at this point it would have been unreasonable for Studio Retail to have approved the account.

Going forwards, taking into account that the three credit limit increases Studio Retail gave Miss S happened a year earlier, I think it ought to have taken steps to verify her income and level of committed expenditure. I agree with our adjudicator that by July 2019, Studio Retail ought to have been doing more to carry out proportionate checks on Miss S's financial situation. Had it done so, it could then have been aware of any signs that Miss S could be getting into difficulty with managing her money to the extent that her total level of borrowing was unsustainable.

I say this having noted that by 2019 Miss S was using a much higher proportion of the available credit than she had in the previous year. By March 2019 this was around 97% and at around 85% of her available credit at the point she was given the credit limit increase in July 2019. I've also noticed that Miss S had incurred a late payment fee in May 2019, although this was later cancelled by Studio Retail as a gesture of goodwill.

So I think 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 three months of bank statements leading up to the lending decision. These show that during this time Miss S's income had dropped significantly – consistent with her leaving her job in May 2019. Also, her current account was dipping into its overdraft in order for her to meet her regular outgoings and committed expenditure and that she was borrowing sums of money from family members to help her manage her daily outgoings, including a mortgage, utility bills, food, travel and other credit repayments. I think all this demonstrates that Miss S didn't have enough disposable income to sustainably afford the additional borrowing.

I also understand that Miss S took long term sick leave between January and May 2020 and that from November 2020 Miss S had taken maternity leave from her job. Again this would have been something that would have been apparent had Studio carried out proportionate checks before granting the further credit limit increases that it did between January and October 2020.

It follows that I think better proportionate checks, such as asking Miss S about her income and committed expenditure and taking steps to verify it, will have likely shown Studio Retail that by July 2019 Miss S was already showing signs of having difficulty in managing her account alongside her day-to-day living expenses and other debt commitments. And whilst I've seen that Miss S was able to clear her existing balance in November 2019, by March 2020 she was using 90% of her increased available credit.

To summarise, I consider that Studio Retail's actions in further increasing Miss S's credit limit on this account, in July 2019 and later, unfairly prolonged her indebtedness. Miss S was able to continue use 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 July 2019 onwards interest is only charged on balances up to £400, 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 July 2019 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 July 2019 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 10 February 2023.

Michael Goldberg

Ombudsman