DRN-3981102

The complaint

Mr D says Studio Retail Limited ("Studio Retail") irresponsibly lent to him. He has requested that the interest and late payment charges he paid on the account be refunded.

What happened

This complaint is about a shopping account Studio Retail provided to Mr D. The account was opened in October 2016 with a credit limit of £300. There were then five credit limit increases between November 2016 and September 2017, taking the credit limit up to £750, plus a further three credit limit increases in 2020 and 2021, taking the credit limit up to £1,750.

Our adjudicator upheld the complaint from the June 2017 credit limit increase, from £375 to £450, due to changes in Mr D's financial circumstances in the lead up to that increase.

Studio Retail said it didn't agree as it said its own information suggested that Mr D was managing his account reasonably well. The complaint has therefore 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.

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 Mr D could afford to repay what he 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 the consumer'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 consumer. 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 has set out in some detail why he now thinks Studio Retail shouldn't have provided Mr D with any further credit from June 2017 onwards, when Mr D's credit limit was increased from £375 to £450. Nonetheless in preparing this decision I've looked at the overall pattern of Studio Retail's lending history with Mr D, based on the evidence and information provided by both Studio Retail and Mr D, 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 increased Mr D's credit limits.

I've seen that Mr D had some other borrowing in place at the time the account was opened, including two revolving credit accounts that were in active use. But I don't think it was necessarily unreasonable for Studio Retail to have approved the account. I say this taking into consideration that at that time Mr D didn't have any defaults or other adverse issues such as a county court judgment recorded on his credit record.

I've seen that Studio Retail granted Mr D his first credit limit increase around a month after the account was opened, but this was relatively modest, from £300 to £375. But going forward I would have expected Studio Retail to carry out credit checks for each increase that would have included reviewing Mr D's income and level of credit commitments elsewhere. I say this having also seen that prior to the June 2017, Mr D had been using between 80 and 100% of the available credit on the account.

Our adjudicator noted that in April 2017, Mr D had defaulted on a catalogue credit account he'd taken out in 2014. And on another catalogue account, also taken out in 2014, Mr D's credit limit had been suspended since December 2016, with the account eventually going into default in November that year. I agree that this suggests that by June 2017 Mr D's financial situation was likely to have been deteriorating to the extent that he could begin to struggle to manage the credit he already had with Studio Retail. I can see that there was some evidence of the difficulty Mr D was experiencing visible within the credit bureau data Studio Retail was relying on. So this ought to have prompted Studio Retail to carry out enquiries in order that it could make a proportionate assessment before granting Mr D any further credit.

I think it follows that in giving Mr D the further credit limit increase in June 2017, Studio Retail ought to have carried out better checks on Mr D's income and committed expenditure at that time. Had it done so it's likely it would have found that Mr D was already getting into serious difficulty with managing his finances to the extent that his total level of borrowing was becoming unsustainable.

To summarise, I consider that Studio Retail actions in further increasing Mr D's credit limit from June 2017 had the effect of worsening his financial situation by making the account unaffordable to him and unsustainable going forward. So Studio Retail should put things right.

I would add that I would expect Studio Retail to continue to act with appropriate forbearance in seeking to support Mr D in his efforts to find a fair and manageable way to pay back any balance that may still be owing on his account.

Putting things right – what Studio Retail needs to do

- Rework Mr D's account to ensure that from 29 June 2017 onwards, interest is only charged on balances up to £450 (being the credit limit in place before that date), including any buy now pay later interest, 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 Mr D to arrange an affordable repayment plan. Once Mr D has repaid the outstanding balance, it should remove any adverse information recorded on his credit file from 29 June 2017 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 Mr D, 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 Mr D's credit file from 29 June 2017 onwards.†

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

My final decision

For the reasons set out, I'm partially upholding Mr D's complaint. Studio Retail Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 13 April 2023.
Michael Goldberg
Ombudsman