

## **The complaint**

Miss T has complained that Studio Retail Limited, trading as Studio, lent to her irresponsibly.

## **What happened**

Miss T opened a shopping account with Studio Retail in December 2020. Her account limit was initially set at £500. Her credit limit was increased once in May 2021 to £950.

Miss T says that Studio Retail shouldn't have lent to her. She says that she was in financial difficulty and Studio Retail should have done more to find out if the credit was affordable for her.

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

Our adjudicator thought that Miss T's complaint should be partially upheld. They thought that the initial credit given to Miss T was acceptable, but that when her credit limit was increased to £950 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 Miss T.

Studio Retail didn't agree. It said that Miss T met its lending criteria and none of her account activity indicated any financial pressure or material financial difficulty.

As Studio Retail disagreed, the case was passed to me to make a decision. I came to a different decision to the adjudicator. I wrote to both parties to explain my provisional decision and invited comments from them both. Studio Retail didn't respond. Miss T provided a full copy of her credit file and some further comments which I address in this 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 considering Miss T'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 T 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 T'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.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

When Miss T opened her account in December 2020, Studio Retail has told us there were no obvious signs of financial difficulties based on the checks it did. It didn't ask Miss T for any financial information but instead it used data from external sources to make its decision. Having reviewed the checks, I think there was a reason for some minor concern - one of Miss T's other revolving credit accounts had recently been in arrears for one month. But I don't think this alone suggests that it would have been unreasonable for Studio Retail to have approved the account. The rest of Miss T's financial information appeared to provide no cause for concern. She was apparently managing other debt well, she had no defaults, County Court Judgements or bankruptcies on her record. Her overall indebtedness was relatively low. The modelled data showed that she had no housing expenses, which tallies with what Miss T has said about living at home with her mother. Affordable repayments on the account, if she had utilised her entire credit limit each month, were around £25 a month. On the information available to Studio Retail I think it was reasonable for it to consider that Miss T could affordably repay the credit it offered her.

Our adjudicator took a different view and considered that it would have been proportionate for Studio Retail to have found out more about Miss T's committed expenditure, such as her living costs. Although we have different opinions about this, it doesn't make a difference to the overall outcome of the complaint. I say this because our adjudicator looked at what Studio Retail might have seen if it had done those further checks and concluded that it wouldn't have made a difference to its decision to lend to Miss T.

Where my opinion does differ to our adjudicator is in relation to the credit limit increase Studio Retail provided to Miss T in May 2021.

Our adjudicator thought that it would have been proportionate for Studio Retail to have verified Miss T's financial circumstances, perhaps by requesting copies of her bank statements. Had it done so, our adjudicator thought that the information Studio Retail would have seen would have stopped it providing the additional credit.

I think that such a move would have been excessive in the circumstances. But I do think Studio Retail ought to have at least *asked* Miss T about her income and expenditure. I say this because from its own checks it noted that the affordability of the credit limit increase was '*high risk*' and her utilisation of her credit was high. The new sustainable repayments on the increased credit limit were around £50, which was a significant amount of the disposable income Studio Retail had assessed Miss T had.

I can't know for sure what Miss T would have told Studio Retail if it had asked at the time. Miss T told us about her expenditure at the time and it seemed from what she told us that she had onerous financial obligations. She also provided her bank statements from around the time of the credit limit increase, but these didn't show all the expenses she told us about. Our adjudicator noted that she had regular PayPal transactions and asked about these. Miss T explained they were for gambling transactions. She also explained that some large transactions were from friends and family to help her with her committed expenditure. For these reasons our adjudicator thought that if Studio Retail had seen this information it wouldn't have fairly increased her credit limit.

While I do not agree that Studio Retail ought to have gone as far as to ask to see bank statements before it gave the credit limit increase, I think the bank statements give a good idea of what it would have found out if it had at least *asked* Miss T about her income and expenditure. This is where I parted company with our adjudicator's assessment of what

Studio Retail would have found out. Having reviewed the bank statements I cannot be satisfied that all the PayPal transactions were for gambling (although some of them were). Miss T appears to have few outgoings for essential expenditure such as rent, council tax or utilities. There are regular transfers between Miss T's own accounts and those of friends and family, but they are generally small and there is no evidence of lending to Miss T from most of the recipients. I can see that there were payments to two payday lenders, but at the time of my provisional decision I didn't know what she had borrowed or how long she needed to pay for them. There is significant spending on non-essential items and Miss T was not overdrawn.

From the bank statements, it would seem that Miss T did not have any notable financial difficulties. I asked Miss T to provide a full credit report because that may have helped me understand the extent of her external borrowing and how she was managing that debt as she has said that she was missing payments to her creditors around that time. However, Miss T did not supply this before I issued my provisional decision. Miss T did provide it following my provisional decision and I've looked carefully at this. However, based on what I have seen this doesn't change my mind.

The credit file shows the two payday loans that I mentioned seeing in Miss T's bank statements. Both had been taken out in the month that the credit limit was increased, so may not have had time to show on Studio Retail's checks. They were for small amounts over a short period. Miss T was not in arrears, and she had no defaults. Her external lending was relatively low (including two credit cards with credit limits not exceeding £250 each). I am satisfied that if Studio Retail had asked Miss T about her income and essential expenditure that it would not have considered that she was over-indebted.

So, on the basis of what I have seen, I can't fairly say that if Studio Retail had completed the checks I think were necessary and proportionate (that is, asking Miss T about her income and essential expenditure), that it found anything to indicate it should not have lent more to Miss T. On this basis I do not uphold Miss T's complaint.

### **My final decision**

I do not uphold Miss T's complaint as I don't think Studio Retail Limited acted unfairly when it extended credit to Miss T. Studio Retail Limited does not need to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss T to accept or reject my decision before 23 May 2023.

Sally Allbeury  
**Ombudsman**