DRN-4145195

The complaint

Mrs M complains that Studio Retail Limited ("Studio") provided her with a catalogue shopping account, and increased the limit on it, when she couldn't afford it.

What happened

In December 2018 Studio approved Mrs M for a catalogue shopping account with a limit of £150. This limit was increased by Studio five times from February 2019 until it reached £650 by November 2019. Following Mrs M's inability to manage repayments, the debt was sold to a third party in December 2020.

After Studio rejected Mrs M's complaint, she brought it to this service. The investigator thought that Studio hadn't done anything wrong in opening the account and increasing the credit limit on the first four occasions. But she thought that by the time of the final credit limit increase, in November 2019, Studio ought to have identified that further borrowing was not affordable and sustainable for Mrs M. Mrs M accepted that, but Studio didn't, and asked that the case be the subject of a final decision by an Ombudsman.

As there is no longer a dispute about the account opening or first four credit limit increases, I won't be considering them. The complaint is now solely about the increase in November 2019.

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.

Having done so, I'm upholding it and I'll explain why.

The investigator thought that Studio should not have increased the credit limit on this account in November 2019, and I agree for broadly the same reasons.

Studio is aware of its obligations under the rules and regulations in place at the time of these credit limit increases, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Mrs M would be able to repay the borrowing it was making available to her in a sustainable way. As set out in CONC 5.3.1G(2) that means that she could manage the repayments,

> "…*without…incurring financial difficulties or experiencing significant adverse consequences"*

Essentially, Mrs M needed to be able to meet all her financial commitments and not have to borrow elsewhere to repay Studio for the credit limit to be considered affordable and sustainable.

Before applying this final credit limit increase, Studio reviewed high level credit file information about Mrs M, and had the benefit of knowing how she'd managed her account with it.

What is clear to me is that it carried out sufficient checks to identify that any further borrowing was **not** affordable and sustainable for Mrs M. Theoretically, I accept the possibility that more detailed checks *could* have provided evidence that it in fact was, despite what the existing information showed. But it didn't carry out any further checks, so that is purely hypothetical. In any event, Studio knew enough to identify that Mrs M was likely experiencing wider financial difficulties and that this additional borrowing was not affordable and sustainable for her. I say that as a result of her management of her account with it, rather than any significant from the high-level credit file information obtained.

There was by this point a clear emerging pattern with the Studio account conduct which strongly suggested that Mrs M was having difficulties. That was that she was consistently failing to stay within her agreed credit limit *every month* since July 2019. And this was despite a credit limit increase having been given in September 2019. So I think it was abundantly clear by November 2019 that Mrs M couldn't successfully manage her account at its existing limit – so it ought to have been equally clear that increasing it further would be harmful.

It is of note that Studio only gave Mrs M an initial credit limit of £150, despite it estimating that she had a very healthy disposable income of £846 per month. So I think it more likely than not that its system had in some way identified the potential for concerns and risk, and which led to the initial very modest credit limit increases. But, in aggregate, it still increased her credit limit by more than 400% within 11 months.

Studio points out that Mrs M's external credit scores were actually improving during 2019. And that she had not missed any payments; had often paid more than the minimum required; and excesses of her credit limit were reduced within short periods of time.

Most of those things are true. I think it's highly debateable as to whether she always returned her account to within the credit limit within *"…short periods of time…"* I accept that was the case in August 2019. But from then on her account was almost constantly over its agreed limit. And it took her over two weeks to rectify the first limit excess in July 2019. So I don't accept that description.

In short, the absence of missed payments, and examples of Mrs M paying more than the minimum required absolutely do not support Studio's conclusion that she was displaying, *"…a growing history of good internal account management…",* at the time of this final increase. As I've already said, it was clear that she couldn't manage the limit she already had, and I would have expected a responsible lender to be considering whether there was a need for any intervention or support on its part. Not simply increasing her credit limit by 44%.

On the basis of the information it had available to it, I find that Studio cannot have reasonably concluded that this credit limit increase was affordable and sustainable for Mrs M, bearing in mind the applicable regulations. It therefore follows that I uphold this complaint.

Putting things right

Studio has confirmed that it sold Mrs M's debt to a third party. So, it should buy it back, and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

In order to put things right for Mrs M, I direct Studio to do the following:

a) Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since 9 November 2019 on balances exceeding £450.

b) Calculate what Mrs M would have owed it if the credit limit had stayed at £450.

c) Apply any and all repayments made by Mrs M since 9 November 2019 to that adjusted balance identified in b).

d) If that calculation means the adjusted balance would have been cleared, Studio must refund any remaining sums to Mrs M with 8% simple interest*, calculated from the date of overpayment to the date of settlement.

e) If after the adjustment an outstanding balance remains, Studio must try to arrange an affordable repayment plan with Mrs M. Once the balance has been fully cleared, whilst I'm not aware of any, should there be adverse information about the account on Mrs M's credit file, that should be removed.

*HM Revenue and Customs requires Studio to deduct tax from any award of interest. It must give Mrs M a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons I've explained, I uphold this complaint and direct Studio Retail Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 17 November 2023.
Siobhan McBride
Ombudsman