

The complaint

Ms B complains that Studio Retail Limited (“Studio”) provided her with increasing credit that she couldn’t afford and which led to her having money problems.

What happened

In October 2019 Studio approved Ms B for a catalogue shopping account with a limit of £300. This limit was increased by Studio three times until it reached £525 by December 2020. It would appear that an, “...*arrears recovery procedure*...”, was entered into by Studio in December 2021, but that at present the account remains open and owned by Studio.

Ms B complained to Studio that the borrowing had caused her financial difficulties, which it did not accept. Our investigator reviewed the evidence and thought that Studio hadn’t done anything wrong in allowing the account to be opened, and in increasing the credit limit on the first two occasions. But he thought that by the time of the third credit limit increase, Studio ought to have identified that the further borrowing was not affordable and sustainable for Ms B. Ms B 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 initial opening of the account and the first two credit limit increases, I won’t be commenting on them. The complaint is now solely about the increase in December 2020.

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 December 2020, 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 Ms R 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, Ms R 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.

Following the investigator’s view, Studio clarified that, in addition to having full information about Ms R’s account conduct, it also obtained some high-level credit file data in December

2020. What is clear to me is that it carried out sufficient checks to identify that any further borrowing was **not** affordable and sustainable for Ms R. 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 Ms R was likely experiencing wider financial difficulties and that this additional borrowing was not affordable and sustainable for her.

There were several issues with the Studio account conduct which strongly suggested that Ms R was having difficulties. They were repeated failures to stay within the previously agreed credit limit during the seven months prior to this increase; the application of a late payment charge; and the fact that Ms R was not making any serious inroads into repaying the balance of the account.

Studio disputes the significance of these issues. It highlights that it was the application of interest and charges – not the value of the goods purchased – which led to, “...*very small excesses...*” of her credit limit. It says that the cost of her orders was always, “...*within the agreed credit limit...*” Even if that is factually correct (which isn't entirely clear from the account records available to me) I fail to see the relevance of the make up of the balance owed in terms of whether it was or was not within the agreed credit limit. Either way, Ms R owed Studio an amount that was in excess of that limit. Which is not a positive indicator.

Studio also highlights that it was Ms R's orders that kept her balance high in the months preceding this increase – not interest or charges. It says that she was often making in excess of the minimum repayment each month, but then used her credit limit to purchase more goods. Although I can see that she was indeed making larger repayments than the minimum required, that in isolation is not sufficient to demonstrate that the borrowing was affordable and sustainable. She may have been borrowing elsewhere to make those payments for reasons of her own.

Finally, Studio says that it believes the late payment mentioned was the result of forgetfulness rather than any financial difficulty, as it was an isolated incident. I agree that, on its own, this late payment would not be enough to draw a conclusion of financial difficulties. However, in aggregate, all the issues taken together form a picture suggestive of financial problems.

Crucially, the high-level credit file data Studio obtained in December 2020 showed that Ms R had recently been subject to a County Court Judgement (CCJ) against her. In October 2019, Studio was aware of the existence of 'delinquent accounts' on Ms R's credit file, but by the time of this credit limit increase, it knew things had deteriorated to the extent that she had now received a CCJ against her. As a result of this information, Studio itself classified Ms R as being at, “...*'Risk of Financial Difficulties'...*”. Despite this, its only action was to increase her credit limit by more than 30%. Studio says that the “...*increase being applied was still within risk appetite at this time.*” However, of greater relevance to my decision are the rules and regulations in force at that time – not Studio's risk appetite.

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

Putting things right

As I understand it, this account remains open and owned by Studio. In order to put things right in this instance, Studio will need to refund all of the interest and charges applied to this account as a result of irresponsible lending.

To achieve that, I require Studio to take the following steps.

- a) Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since 29 December 2020 on balances exceeding £400.
- b) Calculate what Ms B would have owed it if the credit limit had stayed at £400.
- c) Apply any and all repayments made by Ms B since 29 December 2020 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 Ms B with 8% simple interest*, calculated from the date of overpayment to the date of settlement.

*HM Revenue and Customs requires Studio to deduct tax from any award of interest. It must give Ms B 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 Ms B to accept or reject my decision before 12 October 2023.

Siobhan McBride
Ombudsman