DRN-4196095

The complaint

Mr R has complained that Studio Retail Limited acted irresponsibly when it provided him with two catalogue shopping accounts in 2019 and 2020.

What happened

Mr R applied for a credit account with Studio Retail in November 2019. He was approved for the account which was set with a £250 limit. This was later increased in March 2020 to £350. The in January 2020 he opened a second account under Studio Retails 'Ace' brand. The limit on the second account was also £250 and this never increased.

Mr R has said that the accounts were never affordable and shouldn't have been given to him. He says at the time he applied he already had some County Court Judgements (CCJs) for unpaid debt on his credit file and was in arrears on one of his credit cards. He believes it should've been evident to Studio Retail that he was struggling to manage his finances and that it shouldn't have given him the accounts or indeed increased the limit of the first one a few months after he opened it. He has asked that Studio Retail refund all the interest and charges added to the accounts since they were opened.

Studio Retail says that at the time Mr R applied for his accounts it ran all the necessary checks. It accepts that in November 2019 when he applied for the first account Mr R was in an arrangement plan on one of his existing credit accounts but says that it ensured the new form of credit was affordable by offering it with a low limit. It says it reviewed Mr R's income and expenditure, credit file and debt to income ratio. Having done this, it believes the opening limit, and later increase in limit, on the first account, as well as the equally low limit on the second account, were affordable. So doesn't think it was wrong to provide him with the accounts or the limit increase.

Unhappy with Studio Retail's response Mr R brought his complaint to our service. One of our investigators looked into his complaint already. She found that there was sufficient evidence in November 2019 to indicate that Mr R was struggling to properly manage his existing lines of credit. And that Studio Retail should've realised that providing him with more credit was likely to cause him additional problems. So, she didn't think it was appropriate for it to have provided Mr R with the account in 2019. In addition to this she also felt the decisions to allow Mr R to open a second account, and then a short time later increase the limit on the first account, were also inappropriate so she upheld his complaint.

Studio Retail disagreed with the investigator's findings. It repeated its submissions that the opening credit limits on both accounts were extremely low and were affordable based on Mr R's monthly disposable income. It asked for an ombudsman to review the complaint and so it's been passed to me for consideration.

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 agree with the findings of our investigator and don't think Studio Retail acted appropriately when it provided Mr R with the account in November 2019, or the subsequent limit increase and second account in January 2020.

I also want to acknowledge that I've summarised the events of the complaint. But I want to assure both parties that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

When Mr R applied for his account in November 2019 he completed an application form which asked him about his income, monthly outgoings and existing credit obligations. Studio Retail also ran credit report checks to understand how Mr R was managing his existing forms of credit.

These checks indicated that each month, once all his existing monthly outgoings and credit obligations had been met, Mr R had a remaining disposable income of approximately £340. Given there were only a few weeks between the first and second accounts being opened Mr R's circumstances were the same for both applications.

Studio Retail has said that even if Mr R had fully utilised the entire £250 opening limit, his monthly minimum repayments would only be approximately £15, and so it felt the evidence indicated the account was affordable. The minimum repayments on the second account were likely to have been the same. And it's said when the limit increase happened in March 2020, the new minimum monthly repayment amount on the first account was approximately £20 and so it's satisfied that both accounts were affordable.

However, the rules which lenders need to adhere to don't just require them to check whether or not credit is likely to be affordable, but also whether or not it's sustainable. In order to do this, it's necessary for credit providers to understand how consumers are managing their existing forms of credit and to check whether there's any signs that these are becoming problematic for them.

When Mr R applied for his account in November 2019 he was already in an arrangement plan with one of his existing creditors and in arrears with another. In addition to this there were three credit searches showing on his credit file from the previous three months which indicate Mr R was trying multiple avenues to increase his access to credit. So, I think there was evidence that Mr R was struggling to manage his finances. I also note that within two weeks of his first account opening he had almost fully utilised the entire limit and this remained the case right up to the time Studio Retail increased his limit.

Despite the fact that Mr R had reached almost the full limit on his account in a matter of weeks Studio Retail still approved the application for a second account a short time later. The fact that Mr R applied for more credit should've again alerted Studio Retail that he may not be managing his credit obligations well. This should've raised questions around the sustainability of the lending. So it appears Studio Retail missed some strong indicators that Mr R's reliance on credit was starting to spiral.

Overall, I agree with our investigator and think that there was sufficient evidence at the time he applied for his accounts with Studio Retail to show that Mr R was struggling to manage his finances and was having problems meeting his existing credit obligations. Which means that even though the accounts, with small opening limits, may have looked affordable on paper, Studio Retail should've considered whether or not they were likely to be sustainable. If it had I think it would've declined Mr R's applications and refused to provide him with more credit when he wasn't able to maintain the lines credit he had available elsewhere.

For these reasons I'm upholding Mr R's complaint in full.

Putting things right

Since bringing his complaint to Studio Retail Mr R's accounts have defaulted and the debt was sold to a third-party debt purchaser. That third-party has pursued payment of the debt through the courts and a CCJ was issued against Mr R this year.

Therefore, as Studio Retail no longer holds the balance on Mr R's accounts, it should:

- Refund all interest and charges added to Mr R's accounts since their inception. This refund should be made directly to Mr R who can then use it to help repay the outstanding debt if he so wishes

My final decision

For the reasons set out above I uphold Mr R's complaint against Studio Retail Limited.

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

Karen Hanlon
Ombudsman