

## **The complaint**

Mrs B has complained that Studio Retail Limited (“Studio”) acted irresponsibly when it provided her with a catalogue shopping account in 2011.

## **What happened**

Mrs B opened a catalogue shopping account with Studio in 2011. Between then and 2016 Mrs B’s account limit was increased several times. Mrs B has said that at the time the account was opened she already had existing forms of credit she was struggling to maintain. She says she was on a low income, relying on benefits with a young family and that the account was never affordable for her. She believes Studio was wrong to provide the account in the first instance and that it failed to adequately consider her existing debt obligations each time it increased her credit limit.

She has asked that it refund all interest and charges added since the account was opened and buy the outstanding balance back from the debt management company it is currently with. She also wants all negative markers linked to the account removed from her credit file.

Studio has said that due to the passage of time it no longer has evidence of the checks that it carried out when assessing Mrs B’s credit worthiness in 2011. It has said that it is sure affordability checks would’ve been completed at the time of each credit increase but it’s unable to evidence these. However, it has noted that while there were times Mrs B was late making payments the account was generally well managed during 2011-2016 and that she rarely utilised the full limit available to her. So, it didn’t think that it had acted inappropriately in providing her with the account or the various limit increases.

One of our investigators has looked into Mrs B’s complaint already. He found that due to the passage of time there was limited information for him to review, both in regard to Mrs B’s personal finances when the account was opened, or the checks run by Studio at that time and during the subsequent limit increases. However, despite that, he did think it seemed more likely than not that the account was initially affordable for Mrs B. But he said that Studio shouldn’t have provided the credit limit increase in December 2015 and so he asked the business to rework the account as though that limit increase had never taken place.

Studio accepted the investigator’s proposal, but Mrs B didn’t. She said that the account was never affordable and noted that she’s had other complaints about different forms of credit she was given around the same time frame upheld. So she asked that an ombudsman review her complaint and so it’s been passed to me to consider.

## **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 outcome reached by our investigator and think that Studio do need to rework the account as though the limit never exceeded £1,190. I know this will disappoint Mrs B and so I’d like to explain my reasons for reaching this outcome.

There is limited information available to review from the time the account was opened. This is not unusual at all, especially given that took place 12 years ago. Mrs B has gone to a lot of trouble to try to provide evidence of her circumstances at the time and I'd like to thank for her detailed testimony.

However, in order for me to uphold the complaint I would need to be able to say that the checks run by Studio, both when the account was opened and for the subsequent limit increases, were insufficient. And in order to do that I'd need to know what those checks were and what they showed.

There is no obligation on lenders to look at specific information like bank statements or pay slips to verify income. Most lenders will start with basic checks around income and expenditure and credit file scores. In some instances, these basic checks will be enough for the lender to be satisfied that the credit they're providing will be affordable and repayments sustainable. Sometimes these checks will result in additional questions and the business may ask for more information, such as statements etc.

Because I don't know what checks were run, or what information was given to Studio at the time Mrs B applied for her account, I don't know if those checks showed anything that would indicate Mrs B might struggle to manage her account. I know Mrs B believes that because Studio is unable to provide this information I should assume that the account wasn't affordable and uphold her complaint. But, given the passage of time and the fact that we don't expect businesses to keep records for 12 years or more, that wouldn't be a reasonable standard to apply here.

Instead, all I can do is look at the type of credit that was applied for and the likely opening limit, which in this case appears to have been £1,000 or less. And I've not seen anything that indicates Mrs B would struggle with this.

Mrs B has explained that she had other credit obligations elsewhere and had taken out a number of high-cost credit personal loans in the months prior to opening the account. However, these appear to have been maintained and the existence of other forms of credit doesn't in and of itself prove that a new form of credit would likely be unmanageable. So, although I accept that Mrs B was borrowing elsewhere at the time, I can rely on this alone to prove that the lending decision made by Studio in 2011 was irresponsible.

Mrs B has also indicated that some of the income she received into her bank account at the time were from benefits and not personal income she could've relied on for direct use. However, it's unclear how Studio reviewed this and whether or not it was declared as income or whether it was explained to the business that these benefits were fixed for specific things like rent. So I can't conclude that Studio relied on it incorrectly or that it was unreasonable for it to review it as disposable income.

Mrs B has said that during the life span of the account Studio increased her limit on a number of occasions and that these increases were all unaffordable. Again, due to the passage of time it's unclear when these limit increases took place and how much the limit was extended by each time. She has said that she missed payments between 2013 and 2017 and that limit increases took place despite these missed payments. Mrs B has said the missed payments are evidence that the limit increases were inappropriate.

Studio has agreed that the lending decision in December 2015, when Mrs B's limit increased from £1,190 to £1,400 was likely unaffordable for Mrs B and has agreed to rework the account from that time.

This feels reasonable to me having reviewed all of the information that Mrs B and Studio has

provided. I know Mrs B thinks the account was unaffordable prior to this date, but without more concrete evidence to consider I'm unable to point to an earlier time when the account should be reworked from. So, I think the investigator's suggestion to rework the account from this point in time is a reasonable one.

Mrs B has said she's had other complaints, against different credit providers dated around the same time upheld and so she understandably questions why this complaint hasn't also been upheld in full. I do want to clarify that this account is very different from a credit card account or a personal loan where funds can be spent freely. This was a catalogue shopping account and so the only thing that Mrs B could "spend" the funds on was restricted to the specific products offered by Studio. That does impact how we view complaints of this nature and makes it different from complaints about loans where credit providers are effectively giving cash to consumers.

Therefore, having reviewed everything on file, and having read all of Mrs B's detailed submissions, I agree with the outcome reached by our investigator and uphold Mrs B's complaint from December 2015.

### **Putting things right**

In order to put things right Studio Retail Limited should:

- Rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied to balances above £1190.
- If the rework results in a credit balance, this should be refunded to you along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Studio should also remove all adverse information recorded after December 2015 regarding this account from your credit file.
- Or, if after the rework the outstanding balance still exceeds £1190, Studio should arrange an affordable repayment plan with you for the remaining amount. Once you have cleared the outstanding balance, any adverse information recorded after December 2015 in relation to the account should be removed from their credit file.
- If Studio have sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

\*HM Revenue & Customs requires Studio Retail Limited to deduct tax from any award of interest. It must give Mrs 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 set out above I partially uphold Mrs B's complaint against Studio Retail Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 10 October 2023.

Karen Hanlon

**Ombudsman**