DRN-4245834

The complaint

Mrs 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 November 2014 Studio approved Mrs B for a catalogue shopping account with a limit of £100. This limit was increased by Studio 12 times from July 2016 until it reached £900 by December 2020. It would appear that an, *"…arrears recovery procedure…"*, was entered into by Studio in October 2017, and that Mrs B has had repeated problems managing the account throughout most of its existence, but that at present the account remains open and owned by Studio.

Mrs B complained to Studio in May 2022 that the borrowing had caused her financial difficulties, which it did not accept. It also said that she had brought her complaint about the account opening too late under the relevant rules. However, it accepted that she had raised concerns about all the credit limit increases in time.

Our investigator reviewed the evidence and accepted that we did not have the power to look into the account opening, but could consider all the credit limit increases. Mrs B accepted that and so our investigation continued to look at all the increases. The investigator thought that Studio hadn't done anything wrong in increasing the credit limit on the first three occasions. But she thought that by the time of the fourth credit limit increase, in January 2017, Studio ought to have identified that further borrowing was not affordable and sustainable for Mrs B. Mrs 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 first three credit limit increases, I won't be considering them. The complaint is now solely about the increases from January 2017 onwards.

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 January 2017, 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 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, Mrs 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.

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 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 Mrs 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 Mrs R was having difficulties. They were repeated failures to stay within the previously agreed credit limit during the 16 months prior to this increase; the application of multiple late payment charges/'default sums'; and the fact that Mrs R was not making any serious in roads into repaying the balance of the account.

These were not isolated occurrences, possibly the result of forgetfulness or inadvertent mistakes. By way of example, during 2016 Mrs R only kept within her agreed credit limit in four of the 12 months, and only avoided late payment charges in six months. There was a clear pattern of concern by January 2017.

Crucially, the high-level credit file data Studio obtained in January 2017 showed that Mrs R had two delinquent accounts with other creditors, and Studio itself classified Mrs R as being at, *"…'Risk of Financial Difficulties'…".* Despite this, its only action was to increase her credit limit. Studio says that the delinquent accounts, *"…all were more than 6 months old in Jan. 2017 so were becoming less relevant…"* However, I am not confident that is correct, given the data it has provided. In that data, there is a field to show the "time since most recent delinquent account", which contains the figure '1' for January 2017. It is clear that the unit of time captured here is months, not years. So I cannot conclude that her situation was, in fact, improving by January 2017.

Studio also points out that the January 2017 credit limit increase was a modest one of £25, and didn't significantly increase Mrs B's minimum monthly repayment. That is, of course, true. However, by this point Studio had enough information to recognise that any increase – no matter how small – had the clear potential to be harmful to Mrs B.

Studio says that Mrs B had a healthy "modelled" household income, so ought therefore, presumably, to have been able to sustainably afford the increase. I can place no weight on this, as it's clear Studio did not ask Mrs B about her income at this point, and how this figure was "modelled", I have no idea. In no way, shape or form did Studio conduct any form of income and expenditure assessment prior to this credit limit increase. So a "modelled" income for her entire household is of little to no value in this context.

Finally, Studio highlights that, *"…by continuing to support this customer, significant improvements were noted in future bureau data evidencing that no detriment had been caused…"* It points to improvements in the high-level credit file data it gathered in 2018 and 2020. I can only assume that by "*support*", Studio means "lend to". The use of the preposition "*by*" in this comment very strongly suggests to me that Studio believes its continued lending to Mrs B was in some way the cause of these improvements. I must say that I find any such causal link unlikely in the extreme, and indeed assume that I have misunderstood the intent behind this comment. I would point out that, in fact, the data show a continued deterioration in Mrs B's credit file data throughout 2017; that Studio initiated its "…arrears recovery procedure…" in October 2017; and that Mrs B has continued to struggle to manage the account ever since. So the conclusion that her financial situation has improved (whether or not as a result of Studio's actions) and therefore no detriment has been caused simply makes no sense.

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 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 19 January 2017 on balances exceeding £215.

b) Calculate what Mrs B would have owed it if the credit limit had stayed at £215.

c) Apply any and all repayments made by Mrs B since 19 January 2017 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 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 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 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 B to accept or reject my decision before 16 October 2023.
Siobhan McBride
Ombudsman