

The complaint

Miss H complains that Studio Retail Limited irresponsibly gave her a running credit account she couldn't afford to repay.

What happened

In August 2019, Miss H applied for a running credit account with Studio. She was given an initial credit limit of £150. Studio increased this limit in November 2019 to £350. Miss H began to miss payments on the account soon after the increase and by April 2020 she was regularly over her agreed credit limit and incurring fees and charges. The account was eventually defaulted and the debt sold to a third party in 2021.

Miss H complained to Studio to say that the account had never been affordable to her as she had been in financial difficulties prior to applying for the account. She said that appropriate affordability checks ought to have shown this to Studio. Studio said that it had completed adequate checks when opening the account and increasing her limit and that these checks didn't reveal affordability concerns.

Our investigator recommended the complaint should be upheld. She didn't think Studio had acted unfairly in opening the account, but it did so when it increased the credit limit to £350. She said that Studio's checks revealed that Miss H was in a debt management plan and had recent arrears on other credit since opening the Studio account. She said this ought to have indicated to Studio that Miss H couldn't afford further credit.

Studio disagreed. In summary, it said that it was a sub-prime lender, so their risk appetite needs to be taken into consideration. It said that one missed payment since the account opening wouldn't be enough on its own to prevent further credit being provided and Miss H had managed her Studio account well prior to the increase, including by paying more than the required minimum payment.

The complaint has been passed to me for a decision.

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.

Prior to granting credit Studio needed to ensure the borrowing would be affordable for Miss H. There isn't a set list of checks it needed to complete, but any checks it did needed to be proportionate in the circumstances. What is considered proportionate will therefore vary with each lending decision. More thorough checks are generally more likely to be necessary the more credit that is being provided or where the consumer's circumstances indicate signs of financial difficulty. Studio would also need to take into account other factors such as (but not limited to): the cost of the credit, the size of any reasonable regular repayment and Miss H's overall circumstances.

As part of the application Miss H declared an annual income of £18,000. Studio says it

attempted to verify this using credit reference agency data but was unable to do so. Its unclear exactly why this wasn't possible. In any event, what is clear is that it had no idea how much Miss H earned other than what she had told it.

Studio says it also used statistical data to estimate Miss H's outgoings which said she had around £350 in disposable income each month. It also completed a credit check which it says showed that Miss H was currently in a debt management plan and had a number of historic defaulted debts, the most recent of which was 20 months prior to the application. It says that the checks also showed that in the last six months there had been no adverse credit file entries and her credit utilisation of her open credit accounts didn't exceed 85%.

Clearly there were areas of potential concern. However, I'm mindful that the credit limit Studio provided initially was a modest £150 and that it appeared from the credit check that Miss H might have overcome her previous difficulty with credit given she was paying all open facilities on time and had done for some time. I've also taken into consideration the nature of the credit, in that unlike a credit card, she could only use the credit facility with purchases from Studio and that Miss H had declared a reasonable level of income. I'm therefore satisfied that Studio didn't make an unfair lending decision when it opened the account.

The credit limit was increased in November 2019, three months after the account opening. Studio more than doubled her credit limit at that time. I don't think it made a fair lending decision at this point. I'll explain why.

Studio could see that Miss H had new adverse information on her credit file in the form of arrears on another account. This arrears marker had been showing for two consecutive months since the Studio account was opened. This ought to have indicated that in having taken out credit with Studio, it likely caused Miss H difficulty in repaying other credit. This is particularly the case where Studio was already aware she was in a debt management plan.

Where a consumer is in a debt management plan, it's likely they will have very little disposable income as these plans will generally take into consideration what consumers can sustainably afford to repay creditors. As I've set out above, Studio was proposing to more than double the credit limit, it had very little data on Miss H's ability to sustainably repay a limit of £150 given the account had only been open three months. But what data it did have, suggested that her financial circumstances had deteriorated as soon as she'd been given access to that credit.

While I accept Studio's premise that one late payment in isolation isn't sufficient to not provide further credit, that wasn't the case here. It wasn't in isolation. Miss H was in a debt management plan, hadn't had the account very long and in that short space of time had demonstrated she was potentially struggling even with a limit of £150 as she couldn't repay other credit on time. I therefore don't think Studio made a fair lending decision when it increased her limit to £350.

To put things right, I think it would be fair for Studio to rework the account removing all interest, fees, charges and insurances that were applied to balances above £150. However, as Miss H has used the account to make purchases, I think it's fair she repays any capital borrowed. Once that capital is repaid, Studio should also remove any adverse information recorded on her credit file.

My final decision

For the reasons given above, I uphold this complaint and direct Studio Retail Limited to:

- Rework the account removing all interest, fees, charges and insurances (not already

refunded) applied to balances exceeding £150.

- If the rework results in Miss H having paid back more than she borrowed, any overpayments should be refunded to her along with 8% simple interest per year from the date of each overpayment to the date of settlement. Studio should also remove any adverse information recorded on Miss H's credit file.
- If the rework results in there still being a capital balance outstanding, then Studio should arrange an affordable repayment plan for the outstanding amount. Once Miss H has repaid the capital, Studio should remove any adverse information from her credit file.

I understand Studio has sold the outstanding debt to a third party. In order to carry out these directions it should either buy the debt back from the third party or ensure the third party carries out these directions on its behalf.

If Studio considers tax should be deducted from the interest element of my award it should provide Miss H with a certificate showing how much it has taken off, so she can reclaim that amount, if she is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 26 October 2023.

Tero Hiltunen
Ombudsman