DRN-4273364

The complaint

Ms V complains that Studio Retail Limited ('Studio Retail') irresponsibly gave her a revolving credit account that she couldn't afford.

What happened

On 10 February 2018, Ms V's revolving credit account was opened by Studio Retail with an initial credit limit of £125. The credit limit was increased to £300 later in 2018 and was increased to £400 on 11 April 2019. The credit limit was reduced to £370 on 11 October 2019. On 11 April 2020 the credit limit was increased to £500 and was increased to £1,600 on 11 November 2020. The credit limit was reduced to £1570 on 11 January 2023.

On 8 February 2023, Ms V complained to Studio Retail to say that the account and the credit limit increases shouldn't have been given because they weren't affordable and that Studio Retail ought to have made a better effort to understand her financial circumstances before it provided her with credit. Studio Retail did not agree. Ms V brought her complaint to this service.

Our investigator thought the lending on the account was reasonable initially but thought that Studio Retail ought not to have increased the credit limits in April 2020 when the limit increased from £375 to £500. Studio Retail didn't agree. So, the complaint has been passed to me to decide.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website. After reviewing all of the information provided in this complaint, I am upholding Ms V's complaint in part. I explain why below.

Studio Retail needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Ms V could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Studio Retail should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);

- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Our investigator set out in some detail why he thought Studio Retail shouldn't have provided Ms V with any additional credit in April 2020 and thereafter. Studio Retail didn't agree with what our investigator said. It said the credit limits it set were affordable for Ms V.

Studio Retail told us it obtained credit reference data about Ms V at the time of the account opening and prior to each credit limit increase and that it took into consideration how the account was being managed. Ms V's complaint is that Studio Retail made credit available that was unaffordable.

It's possible that Studio Retail failed to make adequate checks before providing Ms V with both the initial credit limit and the credit limit increases. But even if that's true, I don't think better enquiries would have caused Studio Retail to think the initial credit limit was unaffordable. I say that because the initial credit limit was hugely modest and the maximum monthly payments for that credit would have been very modest. So, I have seen insufficient evidence that Ms V was in financial difficulty, such that the very modest initial credit made the lending unreasonable.

Nonetheless I've also looked at the overall pattern of Studio Retail's lending history with Ms V, with a view to seeing if there was a point at which Studio Retail should reasonably have seen that further lending was likely unsustainable, or otherwise harmful. If so, that would mean Studio Retail should have realised that it shouldn't have further increased Ms V's credit limits.

Having done so, I think there was such a point in April 2020. At that time, despite the most modest of credit limits, I think there was a pattern of lending that ought to have put Studio Retail on notice that putting up the credit limit any further was unsustainable as Ms V would not have been able to afford to repay what she was being lent in a sustainable manner, most likely. I explain why I say that.

Studio Retail's records show that in the 5 months before the credit limit was increased in April 2020, Ms V's account had C's account had been in arrears for 3 of those months. Given that Ms V was struggling to manage her account with such a very modest limit of £375, I don't think that it was appropriate for Studio Retail to increase the credit limit at this time. Therefore, I think Studio Retail ought to have known that Ms V was unlikely to be able to sustain a higher limit given how her account was managed. And so, I don't think this credit limit increase, April 2020, or any subsequent increase should've been granted.

So, I am persuaded that Studio Retail should reasonably have seen that further lending was likely unsustainable, or otherwise harmful, and it shouldn't have further increased Ms V's credit limit on 11 April 2020. It follows that I think that Ms V lost out because Studio Retail provided her with further credit from 11 April 2020 onwards.

In my view, Studio Retail's actions unfairly prolonged Ms V's indebtedness by allowing her to use credit she couldn't afford over an extended period of time and the interest being added would only have the effect of putting her into further debt. It follows that Studio Retail should put things right.

Putting things right

- Rework Ms V's accounts to ensure that from 11 April 2020 onwards interest is only charged on balances up to the total credit limit of £375, including any buy now pay later interest, (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed;

and

- If an outstanding balance remains on the accounts once these adjustments have been made Studio Retail should contact Ms V to arrange an affordable repayment plan for these accounts. Once Ms V has repaid the outstanding balance, it should remove any adverse information recorded on Ms V's credit file from 11 April 2020 onwards for each account.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Ms V, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Studio Retail should also remove any adverse information from Ms V's credit file from 11 April 2020 onwards.†

†HM Revenue & Customs requires Studio Retail to take off tax from this interest. Studio Retail must give Ms V a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons set out, I'm partially upholding Ms V's complaint. Studio Retail should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms V to accept or reject my decision before 15 November 2023.

Douglas Sayers
Ombudsman