

The complaint

Mrs S has complained that Studio Retail Limited, trading as Studio, irresponsibly lent to her.

What happened

Mrs S opened a shopping account with Studio Retail in November 2017. Her account limit was initially low - £300. Her account limit was increased once, in November 2020, to £1,500.

Mrs S says that Studio Retail shouldn't have lent to her. She says that Studio Retail should have consulted her credit file and asked her more questions to find out if the credit was affordable for her. While Mrs S's complaint is specifically in relation to the credit limit increase, we have looked at the entire lending.

Studio Retail says it did all the necessary checks before it lent to Mrs S – and when it increased her credit limit.

Our investigator thought that Mrs S's complaint should be partially upheld. They thought that the initial credit given to Mrs S was acceptable, but that by the time her credit was increased, Studio Retail didn't act fairly or reasonably in doing so.

Our investigator said that Studio Retail should pay back interest and charges it made as a result of the credit that was unfairly extended to Mrs S.

Studio Retail didn't agree. As Studio Retail didn't agree, the case has been passed to me to make 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.

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 and I've taken that into account when considered Mrs S's complaint.

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 Mrs S 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 Mrs S'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 Mrs S. These factors include:

- Mrs S's income, reflecting that it could be more difficult to make any repayments to a given credit amount from a lower level of income;
- The amount due to be repaid and total amount borrowed, reflecting that it could be more difficult to meet a higher repayment from a particular level of income;
- The frequency of borrowing and the length of time Mrs S had 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.

When Mrs S opened her account in November 2017, Studio Retail has told us there were no signs of financial difficulties based on the checks it did. Having reviewed the checks, I can see that Mrs S was managing her external debt reasonably well. There was no evidence of significant arrears elsewhere and no County Court Judgments or bankruptcy. Mrs S's income was estimated using external data as around £21,000. Sustainable repayments on the credit, if Mrs S had used all of it at once, would have been around £18 a month.

On this basis I don't think there is anything to suggest that Studio Retail needed to do further checks or that it would have been unreasonable for Studio Retail to have approved the account.

Three years later, Studio Retail increased Mrs S's credit limit to £1,500 – a five-fold increase on the original credit limit provided.

At this stage, Mrs S's management of the much lower credit limit of £300 had been poor. In the 18 months preceding the increase Studio Retail's records show that Mrs S was either in financial difficulty, at risk of financial difficulty, in persistent debt or in default in 15 of those months. While in the three months immediately preceding the increase Mrs S's financial situation superficially appeared to have improved, Studio Retail didn't have any information to explain what had changed. I think given the difficulties Mrs S had experienced only very recently and the proposed large increase that Studio Retail had enough information to understand that Mrs S was at significant risk of not being able to manage any more credit.

Studio Retail submits that Mrs S paid off her entire balance three months before the credit limit increase. It also points to other information it saw which indicated Mrs S had managed to reduce her external borrowing, too. I haven't seen evidence of this latter information. Studio Retail acknowledges there is no data to determine where any extra capital has come from but considers the behaviour observed is consistent with a customer who is consciously and systematically trying to reduce their overall debt.

I would agree that it appeared Mrs S was trying to manage her debt, although it's not clear that she had reduced it overall. But that doesn't mean the credit limit increase was affordable. And Studio Retail concedes it doesn't know where the extra capital may have come from.

Mrs S has provided copies of her bank statements and I can see that in August 2020 Mrs S took out a £5,000 loan with a high cost lender. This lender's customer base was largely customers with poor credit. I can see that Mrs S used some of that loan to pay off other debts, including that with Studio Retail. So, I don't think that when Mrs S paid off her outstanding balance three months before the credit limit increase this was any kind of indication that Mrs S was managing her finances better or could afford additional credit of the amount Studio Retail gave her. I think it was clear that there was a significant risk Mrs S wouldn't have been able to repay what she already owed within a reasonable period of time,

so Studio Retail shouldn't have increased her credit limit. Indeed, Studio Retail's own records show that Mrs S fell into persistent arrears almost as soon as she began to utilise the increased credit.

Putting things right

I think it's fair and reasonable for Studio Retail to refund any interest and charges incurred by Mrs S as a result of the credit unfairly extended to her. I don't think the limit should have been increased from November 2020 onwards, therefore Studio Retail should rework the account and:

- remove any interest and charges incurred as a result of the increase in Mrs S's credit limit to £1,500 in November 2020. That is, Studio Retail can only add interest accrued on the balance up to the credit limit of £300 – this being the credit limit before November 2020.
- Studio Retail should work out how much Mrs S would have owed after the above adjustments. Any repayment Mrs S made since November 2020 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Mrs S along with 8% simple interest per year* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Mrs S no longer owes any money, then all adverse information regarding this account should be removed from the credit file from November 2020.
- If an outstanding balance remains, Studio Retail should look to arrange an affordable payment plan with Mrs S for the outstanding amount.
- I understand Mrs S currently has an outstanding balance. I would remind Studio Retail of its obligation to treat Mrs S fairly if she is having difficulty meeting the repayments. If Mrs S feels she has been treated unfairly she must discuss this with Studio Retail first, and we can consider this as a separate complaint if she is unhappy with Studio Retail's response.

*HM Revenue & Customs requires Studio Retail to deduct tax from any award of interest. It must give Mrs S 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

I think Studio Retail acted unfairly when it extended further credit to Mrs S in November 2020. To put this right I direct Studio Retail & Company Limited to pay compensation as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 9 November 2023.

Sally Allbeury
Ombudsman