

The complaint

Ms W, who is represented by a third party, says Studio Retail Limited (“Studio Retail”) irresponsibly lent to her. She has requested that the interest and late payment charges she paid on her account be refunded.

What happened

This complaint is about a shopping account Studio Retail provided to Ms W. The account was opened in November 2018 with a credit limit of £300. A credit limit increase to £400 was applied to the account in November 2020.

Our investigator partially upheld the complaint, from the date of the credit limit increase. This was because of Ms W’s payment history between the account opening and the credit limit increase.

Studio Retail said it didn’t agree as it said its own information suggested that Ms W was managing her account reasonably well. The complaint has therefore 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.

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.

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 W 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 we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender like Studio Retail to be able to show that it didn’t continue to lend to a customer irresponsibly.

Our investigator has set out in some detail why she thinks Studio Retail shouldn’t have provided Ms W with any increased credit from November 2020 onwards, when Ms W’s credit limit was increased from £300 to £400. Nonetheless in preparing this decision I’ve looked at the overall pattern of Studio Retail’s lending history with Ms W, based on the evidence and

information provided by both Studio Retail and Ms W, with a view to seeing if there was a point at which Studio Retail should reasonably have seen that further lending was unsustainable, or otherwise harmful. If so, that would mean Studio Retail should have realised that it shouldn't have increased Ms W's credit limits.

I've seen that at the time of the account opening Ms W had a good credit history with no adverse markings on her file such as defaults or county court judgments. So I don't think it was unreasonable for Studio Retail to have approved the account and grant the opening limited it did.

I've seen that Studio Retail granted Ms W the credit limit increase two years after the account as first opened. In terms of the size of the increase, I think an increase of £100 on a £300 credit limit may, when seen on its own, appear to be relatively modest. But over that two year period Ms W had made at least four late payments to her account. She had also exceeded her credit limit on several occasions, the first of which occurred in February 2019, within three months of opening her account. Our Investigator concluded there was a significant risk that Ms W wouldn't be able to sustainably repay what she owed.

Studio Retail has pointed out that Ms W had last missed a payment five months earlier and only because it was four days late. It also says that in May 2020 she made a large payment that almost cleared her full balance. She also tended to make payments that were more than the minimum. Whilst I accept and appreciate these points, I don't think it alters the position that Ms W's account history gave some cause for concern when it comes to granting a credit limit increase.

I recognise that an increase from £300 to £400 may not seem to be substantial and could perhaps be seen as way of giving Ms W more account flexibility. But I have to balance that against an account history where payments were being made – albeit above the minimum – that were not making a real dent in her balance. This led to her repeatedly breaching her credit limit and incurring an interest charge each time. I've noted that Ms W had raised a personal issue in relation to her being able to make payments in December 2019, which might go some way to explaining why the account management history suggested problems up to that point. But the limit breaches still continued after that and then a series of purchases earlier in November 2020 pushed her balance almost up to £400. If what happened in November 2020 was the first time the account limits had been breached then I can see some justification for increasing the limit. But against the account history I've seen of going over her limit and a level of monthly payments that in the main were not making significant inroads on her account balance, I don't think it was a fair lending decision for Studio Retail to increase the credit limit in November 2020.

To summarise, I consider that Studio Retail's actions in increasing Ms W's credit limit from November 2020 had the effect of worsening her financial situation by making the account unaffordable and unsustainable going forward. So Studio Retail should put things right.

Putting things right – what Studio Retail needs to do

- Rework Ms W's account to ensure that from 8 November 2020 onwards, interest is only charged on balances up to £300 (being the credit limit in place before that date), including any buy now pay later interest, 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 account once these adjustments have been made, Studio Retail should contact Ms W to arrange an affordable

repayment plan. Once Ms W has repaid the outstanding balance, it should remove any adverse information recorded on her credit file from 8 November 2020 onwards.

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 W, 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 W's credit file from 8 November 2020 onwards.†

†HM Revenue & Customs requires Studio Retail to take off tax from this interest. Studio Retail must give Ms W 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 W's complaint. Studio Retail Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 19 October 2023.

Michael Goldberg

Ombudsman