DRN-4371498

The complaint

Mr D complains Frasers Group Financial Services Limited provided him with two unaffordable catalogue shopping accounts under the brands Studio and Ace.

I'll refer to Frasers Group Financial Services Limited as "Studio Retail" throughout my decision; as most of the lending events were approved under Studio Retail Limited, and it is this business name Mr D would have largely dealt with.

What happened

Studio Retail provided Mr D with two accounts under the brands Studio and Ace. I've provided the details of these accounts in the below table:

Brand	**Lending decision**	**Date**	**Credit Limit**
Studio	Original limit	April 2017	£100
Studio	1st limit increase	September 2017	£165
Studio	2nd limit increase	October 2017	£215
Studio	3rd limit increase	March 2018	£300
Studio	4th limit increase	October 2018	£500
Studio	5th limit increase	December 2018	£625
Studio	6th limit increase	March 2019	£750
Ace	Original Limit	July 2018	£125
Ace	1st limit increase	October 2018	£200
Ace	2nd limit increase	November 2018	£300
Ace	3rd limit increase	August 2019	£350
Ace	4th limit increase	February 2021	£360
Ace	5th limit increase	May 2021	£410
Ace	6th limit increase	July 2021	£535
Ace	7th limit increase	September 2021	£660
Ace	8th limit increase	November 2021	£785
Ace	9th limit increase	January 2022	£910
Ace	10th limit increase	March 2022	£1,160
Ace	11th limit increase	October 2022	£1,300

**Both brands had limit reductions at times between the increases*

Mr D complained to Studio Retail in December 2022. He said it had irresponsibly provided him with the two catalogue shopping accounts and limit increases over the years. He said had Studio Retail completed reasonable and proportionate checks it would have identified all limits were unaffordable for him.

Studio Retail didn't uphold the complaint. It issued two final responses under the separate brands and said it considered it had completed proportionate checks at each lending event; and went on to make fair lending decisions. Mr D didn't accept Studio Retail's responses and referred the complaint to our Service for review.

Our Investigator upheld the complaint in part. She concluded Studio Retail had made fair lending decisions when providing Mr D with the original Studio account and all limit increases. She also felt Studio Retail had made a fair lending decision when providing Mr D with the original Ace account most of the limit increases; but concluded that from March 2022 it hadn't made fair lending decisions when increasing Mr D's limit to £1,160 and above. She reached this conclusion based on the information she considered Studio Retail ought reasonably to have identified had it completed proportionate checks.

Mr D appears to have accepted the outcome; Studio Retail disagreed. In summary, it maintained its argument that it made fair lending decisions and pointed back to the information it received and reviewed as part of its checks which influenced its lending decisions. As our Investigator's outcome didn't change Studio Retail asked for an Ombudsman's review, so the complaint's 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.

Having done so I've reached the same outcome as our Investigator, for broadly the same reasons.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website; both Mr D and Studio Retail are aware of this approach.

Studio Retail needed to take reasonable steps to ensure the lending it provided was responsibly lent to Mr D. The relevant rules, regulations, and guidance at the time of each of Studio Retail's lending decisions required it to carry out reasonable and proportionate checks. These checks needed to assess Mr D's ability to afford the credit limit being approved and repay it sustainably, without causing him financial difficulties or harm.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, considering things like the type, amount, duration, and total cost of the credit, as well as the borrower's individual circumstances.

And it isn't sufficient for Studio Retail to just complete proportionate checks – it must also consider the information it obtained from these checks to make fair lending decisions. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without the need to borrow further.

I've taken this into account and have split my findings under each brand for ease.

<u>The Studio branded account</u>

Studio Retail has said it verified Mr D's income using industry recognised credit reference agency data; and that it completed a credit check to understand Mr D's current credit commitments and the management of his current and recent credit accounts. It has said it was satisfied from the evidence it obtained at account opening that Mr D could sustainably afford the credit.

It has gone on to confirm before each limit increase it reviewed the management of the account as well as conducting a new credit check. It has said it is satisfied at each limit increase its checks were proportionate and that it went on to make fair lending decisions.

I've carefully considered Studio Retail's arguments here; and I'm persuaded it did make fair lending decisions in each event.

I say this because at account opening and all limit increases, I consider the checks Studio Retail completed to have been proportionate; and that it reasonably took account of the information it obtained to reach fair lending decisions.

While some of the limit increases were completed within relatively quick succession of others, they were all generally for modest amounts, and at all times the overall limit provided to Mr D remained at a relatively modest level. Studio Retail had reasonably understood Mr D's income to be around £25,000 at the time of the original application; and given all of the information it obtained at this time and at each increase, I haven't seen anything to suggest it ought reasonably to have identified Mr D was showing signs of financial distress, or that further lending would be harmful or detrimental to him.

So, I consider each of the checks it completed were proportionate based on the type and amount of credit it was providing, as well as what it knew about Mr D's individual circumstances.

It therefore follows I don't consider Studio Retail's lending decisions were unfair under the Studio branded account.

<u>The Ace branded account</u>

Studio Retail has said it completed the same level of checks under the Ace brand as it did under the Studio brand; so, it looked to verify Mr D's income at account opening using an online credit tool, as well as conducting a credit check. And it reviewed the management of the account and completed a further credit check at each limit increase.

Studio Retail has said it considers its checks under the Ace brand to have been reasonable and proportionate; and that it went on to make fair lending decisions at each lending event.

I've carefully considered its arguments under the Ace brand; but I'm not persuaded it did make fair lending decisions in all of the lending events.

I do consider its lending decisions to have been fair up to and including the limit increase to £910 approved in January 2022. I say this because I consider its checks to have been proportionate up to this lending decision, based on the type of account and amount of credit it was providing, as well as what it reasonably knew about Mr D's individual circumstances.

I've seen within the data Studio Retail has provided that in around mid-2019 the checks Studio Retail completed appears to suggest Mr D had arrears on an external debt. This position looks to have worsened over the following months until the arrears are no longer reported. This suggests that the line of credit in arrears was defaulted around this time. However, Studio Retail's lending decision in August 2019 was within around a month of this adverse appearing; so, the very early stages. And I've seen it reduced Mr D's credit limit across both accounts around this time, reacting to the adverse data and increased risk.

Its next lending decision was in February 2021, so around eight months after the arrears were no longer reported, and I consider allowed it a reasonable period of time to have reviewed Mr D's ongoing financial situation.

By the time it lent again in February 2021 Mr D's financial circumstances look to have improved, based on the proportionate information I consider Studio Retail obtained. So, I consider Studio Retail's lending decisions either side of this period to have been fair in the individual circumstances.

But by the time it increased Mr D's limit to £1,160 in March 2022 he had a combined available limit of around £1,500 across the two brands. I consider at this point proportionate checks would have included Studio Retail obtaining a full understanding of Mr D's financial circumstances, by verifying his actual income and expenditure.

Mr D has provided us with banks statements covering the period leading up to this increase. In the absence of any other information, I consider these statements allow me to obtain an understanding of Mr D's financial circumstances at that time.

The bank statements Mr D has provided suggest he wasn't in regular paid employment; and wasn't receiving anywhere near as high an income as Studio Retail had relied on as part of its creditworthiness assessments.

The bank statements show transfers into the account from another individual. Mr D has told us he was in receipt of benefits when this lending was provided, and that this was around £400 per month. He's said his benefits were paid into his partner's account who transferred the money across to his account. I've seen payments in from another party which are a little irregular, but generally total around £450 across each of the three months leading up to this lending decision. So, I'm persuaded this is the benefit income Mr D has detailed.

On the whole Mr D's statements don't show large payments towards regular household expenses such as a mortgage/rent or council tax. However, there are some regular modest payments made towards some other household bills like insurance and utilities, and what appears to be car related costs. But on the whole Mr D's relatively modest income largely appears to be spent on food and petrol.

There are multiple transactions to and from Mr D's account from several individuals. A number of these transactions are for relatively modest amounts, but it does suggest Mr D is living to a very tight budget, as often payments are received when his account balance drops to low double figures; and sometimes single figures. These credits generally bring the balance into a healthier position, before Mr D makes payments and transfers money back out to individuals, bringing his balance back to a modest level.

Most concerning however is the evidence of regular monthly payments towards debt collection/management organisations. The evidence of payments towards these organisations strongly suggests Mr D was experiencing some form of financial difficulties or financial stress. And given how the bank account is managed to a very tight budget, I consider had Studio Retail completed proportionate checks it ought reasonably to have concluded Mr D's financial situation didn't support further limit increases; and it therefore follows he wasn't a suitable candidate to provide further credit to as by doing so would be detrimental or otherwise harmful to him.

I'm therefore satisfied Studio Retail didn't make fair lending decisions when providing Mr D with the credit limit increases on the Ace branded account from March 2022.

Putting things right

As I don't consider Frasers Group Financial Services Limited should have increased Mr D's credit limit above £910 on the Ace branded account, I don't think it's fair for it to charge any interest or fees on any balances which exceeded that limit. However, I consider Mr D should pay the cash price for any goods he's kept. Therefore, Frasers Group Financial Services Limited should:

- Rework the Ace branded account removing all interest (including any Buy Now Pay Later ("BNPL") interest), fees and charges applied to balances above £910 after March 2022
- If the rework results in a credit balance, this should be refunded to Mr D along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Frasers Group Financial Services Limited should also remove all adverse information recorded after March 2022 regarding this account from Mr D's credit file
- Or, if after the rework an outstanding balance still remains, Frasers Group Financial Services Limited should arrange an affordable repayment plan with Mr D for the remaining amount. Once Mr D has cleared the outstanding balance, any adverse information recorded after March 2022 in relation to the account should be removed from Mr D's credit file

As Frasers Group Financial Services Limited has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Frasers Group Financial Services Limited to deduct tax from any award of interest. It must give Mr D a certificate showing how much tax has been taken off if he 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

My final decision is that I'm upholding Mr D's complaint about Frasers Group Financial Services Limited and I direct it to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 20 March 2024.

Richard Turner
Ombudsman