DRN-4515946

The complaint

Ms G has complained that Studio Retail Limited lent to her irresponsibly when it provided her with a shopping account.

What happened

Ms G opened a shopping account with Studio Retail in April 2018 with a credit limit of £250. Over the following two years Ms G's credit was increased four times until it was £750.

Ms G suggests that Studio Retail shouldn't have provided her with the credit. She says if Studio Retail had done proper checks it would have known she couldn't afford it.

Studio Retail says it didn't lend irresponsibly to Ms G and that it did all the necessary checks before it lent to Ms G – and when it increased her credit limit.

Our investigator thought that Ms G's complaint shouldn't be upheld. On the basis of the information available to them, they didn't think Studio Retail ought reasonably to have thought there was an indication the credit was unaffordable for Ms G.

Ms G disagreed. She said her credit history at the time of the borrowing showed she wasn't able to afford the credit.

As Ms G disagreed the case was passed to me to make a decision. When I reviewed the complaint I thought that part of Ms G's complaint should be upheld. I wrote to both parties to explain my provisional decision. Ms G agreed with my decision; Studio Retail did not, and provided further information which I have now considered.

Studio Retail Limited's name has changed to Frasers Group Financial Services Limited during the course of this complaint, but I refer to Studio Retail throughout this decision for clarity.

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 I have considered Ms G's complaint.

Having taken into account Studio Retail's further information I am still satisfied that my provisional decision is fair.

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 G 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 Ms G's income and expenditure. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

Studio Retail provided a copy of the checks that it completed when Ms G opened the account in April 2018. The data shows that at the time of Ms G's application she had three outstanding County Court Judgments, the most recent of which was 14 months earlier.

Our investigator said that this alone wasn't a reason not to lend to Ms G. Our investigator thought that as Ms G was a new customer and the most recent CCJ was 14 months earlier that this didn't necessarily mean Studio Retail shouldn't have lent to Ms G.

I agree that in isolation it may not be a reason not to lend to Ms G. But I do think Studio Retail ought to have found our more about Ms G's circumstances because of what it saw. I think it ought to have made more enquiries about Ms G's income and expenditure.

I don't know exactly what Studio Retail would have done to find out more about Ms G's financial position. There is no prescriptive list of checks it should have done.

In the absence of any other information, I asked that Ms G provide her bank statements and credit file from around the time she opened the account and during the life of the account. Unfortunately, other than one screenshot of a short period of time in January 2020, Ms G wasn't able to provide this. So, if Studio Retail had done more checks, I don't know what it might have seen. So, I can't fairly say that Studio Retail lent to Ms G unaffordably when she opened the account.

I can see that from June 2018, Studio Retail's checks showed Ms G as being at risk of financial difficulties. She remained in this position until April 2019. In May 2019, Studio Retail increased Ms G's credit limit by £125 to £375.

Given the information Studio Retail had about Ms G's risk of financial difficulties, I think that Studio retail ought to have made more checks. But again, as Ms G couldn't provide any information about her financial circumstances I don't know what Studio Retail might have seen if it had done the checks. So, I can't say it acted unfairly in lending to her.

Similarly, Studio Retail increased Ms G's credit limit again in August 2019 and in November 2019, first to £500 and then to £625. Ms G's financial situation appeared better, and she was no longer at risk of financial difficulties. But Studio Retail still didn't have an understanding of Ms G's ability to sustainably repay the borrowing, so I think it ought to have done further checks. Of course, the same situation applies: Ms G hasn't been able to provide evidence of her circumstances so I can't say Studio Retail acted unfairly.

In January 2020, Ms G's financial situation began to deteriorate. She was considered to be in persistent debt by Studio Retail's measures. And in January 2020 and March 2020 she missed payments on her account.

However, despite this, in Ms G's fifth month of persistent debt, and after she missed payments in two of the preceding three months, Studio Retail increased Ms G's credit limit for the final time, to £750.

While, again, I don't have any information about Ms G's wider financial circumstances at the time, I don't think it was appropriate for Studio Retail to have increased Ms G's credit limit on the basis of the information it had. I can see that following the increase, Ms G continued in arrears in eight out the next nine months and she remained in persistent debt for a full 28 months.

I think that by the time Ms G had been in persistent debt for four months, rather than increasing her credit limit, Studio Retail ought to have been looking at showing forbearance. I think that the decision to increase Ms G's credit limit in May 2020 caused Ms G further financial difficulties.

Following my provisional decision Studio Retail provided more information about its own checks around this time. It is not clear why it chose to drip feed information pertinent to this case which it hoped to rely on rather than supply it all together at the beginning of the complaint. However, having reviewed the information it has now provided I am still satisfied that it should not have increased Ms G's lending in May 2020. Studio Retail makes no submissions which support a finding that Ms G wasn't in persistent debt (as its own records from the time showed) at the time of that increase.

On this basis I do not think it was fair to increase Ms G's credit limit from £625 to £750 and I think Ms G lost out as a result.

Putting things right

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

- remove any interest and charges incurred as a result of the increase in May 2020). That is, Studio Retail can only add interest accrued on the balance up to the credit limit of £625 – this being the credit limit before May 2020.
- Studio Retail should work out how much Ms G would have owed after the above adjustments. Any repayment Ms G made since May 2020 should be used to reduce the adjusted balance.
- If this clears the adjusted balance any funds remaining should be refunded to Ms G 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 Ms G no longer owes any money then all adverse information regarding this account should be removed from the credit file from May 2020.
- Or, if an outstanding balance remains, Studio Retail should look to arrange an affordable payment plan with Ms G for the outstanding amount. If any debt was sold to a third party, Studio Retail should either repurchase the debt or liaise with the third-party to ensure the above steps are undertaken. Once Ms G had cleared the balance, any adverse information as a result of the unfair lending should be removed from the credit file.

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

My final decision

My decision is that Studio Retail Limited acted unfairly when it increased Ms G's credit limit in May 2020. Studio Retail Limited must pay compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 18 January 2024.

Sally Allbeury
Ombudsman