DRN-4646936

Complaint

Miss B says Frasers Group Financial Services Limited (trading as "Studio") irresponsibly provided her with a catalogue shopping account which it then unfairly increased the credit limit on.

Background

This complaint is about a catalogue shopping account Studio initially provided to Miss B in August 2020.

Miss B was given an initial credit limit of £675. This limit was then increased to £750 in February 2021 before once again being increased to £1,250.00 in April 2021.

One of our investigators upheld Miss B's complaint as he considered that Studio ought to have seen, from its checks, that this account as well as the limit increases were unaffordable for her.

Studio didn't accept the investigator's conclusions. So the complaint was passed to an ombudsman as per the usual next stage of our process.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I'm upholding Miss B's complaint. I'll explain why in a bit more detail.

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 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 Miss B 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 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.

Studio says it agreed to Miss B's application for an account and the subsequent limit increases after she provided details of her monthly income and some information on her expenditure.

It says it cross-checked this against information on a credit search it carried out and statistical data on average living costs. In its view, this information showed Miss B could afford to make the repayments she was committing to. On the other hand, Miss B has said the required repayments were unaffordable and she should never have been lent to.

I've considered what the parties have said.

It seems to me that Studio's own argument is that it concluded that Miss B's disposable income was £73. Studio also states that a credit limit of £675 required a monthly payment of £40.50 in order for it to be sustainably repaid within in a reasonable period of time.

Furthermore, I've not seen anything to indicate that Studio had clear evidence Miss B was receiving more each month, or that she had an increased monthly disposable income, when it increased her credit limit to £750 and then £1,250.00. This was despite the fact that higher credit limits inevitably required increased monthly payments in order for them to be cleared within a reasonable period of time.

In any event, what most important here is that Studio calculation of Miss B's disposable income was in large part based on average data. To be clear, I'm not saying that using average or statistical data in itself is unfair or unreasonable. However, when a lender performs such a calculation and it indicates that the customer has a low monthly disposable income of £73, I can't see how it is fair and reasonable to provide a facility where more than half of this low monthly disposable income will now be taken up by repayments to an additional credit commitment.

I say this while mindful that a monthly disposable income arrived at with the use of average or statistical data is unlikely to have captured all of Miss B's committed expenditure. And in circumstances where such estimates are used, I think that it is fair and reasonable to expect a lender to allow far more headroom than the around £30, which Studio allowed here. A larger surplus allows for the fact that the use of average data rather than actual expenditure, will not have captured all of the prospective borrower's committed expenditure.

In my view, Studio didn't allow a reasonable enough headroom to account for the fact that its own statistical analysis showed that Miss B didn't have much in the way of disposable income. So I'm not persuaded that Studio's checks showed that Miss B had a sufficient disposable income to repay the amount of the initial credit limits or the increased ones.

As Studio provided Miss B with her account and increased her credit limit on two occasions, in these circumstances, I'm satisfied that it failed to act fairly and reasonably towards her. I also think that Miss B lost out as a result of Studio failing to act fairly and reasonably towards her. I'm satisfied that this is the case because Miss B had to pay interest and charges on credit which Studio shouldn't have given to her. So I'm satisfied that Studio now needs to put things right.

Fair compensation – what Studio needs to do to put things right for Miss B

I'm satisfied that it would be fair and reasonable in all the circumstances of Miss B's complaint for Studio to:

- Rework Miss B's account to ensure that all interest, fees and charges added through its lifetime are removed.

AND

- If an outstanding balance remains on the account once these adjustments have been made, Studio should contact Miss B to arrange a suitable repayment plan for it.

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 Miss B, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Studio should remove any adverse information that it has recorded from Miss B's credit file†.

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

My final decision

For the reasons set out above, I'm upholding Miss B's complaint. Frasers Group Financial Services 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 Miss B to accept or reject my decision before 26 March 2024.

Jeshen Narayanan
Ombudsman