

## **Complaint**

Miss C has effectively complained that Studio Retail Limited (“Studio”) irresponsibly provided her with a catalogue shopping account and limit increases despite the fact that they were unaffordable.

## **Background**

In September 2019, Miss C was provided with a catalogue shopping account by Studio, which had a credit limit of £300. In November 2019, Miss C’s credit limit was increased to £600 before it was increased to £675 in January 2020 and then finally increased to £1,000.00 in December 2020.

One of our investigators looked at everything provided and she thought that Studio ought to have realised that it shouldn’t have provided the limit increases from January 2020 onwards to Miss C. So she thought that Miss C’s complaint should be partially upheld.

Studio disagreed with our investigator’s conclusions and asked for an ombudsman’s review of the complaint.

## **My provisional decision of 26 February 2024**

I issued a provisional decision – on 26 February 2024 - setting out why I was intending to partially uphold Miss C’s complaint.

In summary, I was intending to uphold Miss C’s complaint because I was satisfied that Studio should not only have refused to have increased Miss C’s credit limit to £1,000.00 but it should also have realised that the facility at its existing limit of £675 had become demonstrably unsustainable for her.

## **Responses to my provisional decision**

Miss C responded to my provisional decision confirming that she accepted it and had nothing further to add.

Studio responded to my provisional decision. Whilst not expressly disagreeing with my conclusions it nonetheless said:

- Miss C was not over her existing credit limit when she applied for a limit increase to £1,000.00. Whilst the credit limit shows as being increased in December 2020, it was actually approved and became immediately available to Miss C when she applied for it in November 2020.
- At this point Miss C had no external arrears, was up to date with payments and the request was well within affordability screening.
- Miss C’s December 2020 statement didn’t have a late payment applied.

## My findings

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.

Having carefully considered everything, including the responses to my provisional decision, I'm still partially upholding Miss C's complaint. I'll explain why in a little more detail.

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 C 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, are not limited to but, 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.

I've kept all of this in mind when deciding Miss C's complaint.

### *Studio's initial decision to lend and the first two limit increases*

Miss C's account was opened in September 2019 with a credit limit of £300. The catalogue shopping account Studio provided Miss C with was a revolving credit facility. This meant that Studio was required to understand whether Miss C could repay £300 within a reasonable period of time.

What is important to note is that a credit limit of £300 required small monthly payments in order to clear the full amount owed within a reasonable period of time. And I've not been provided with any clear evidence to show that Miss C circumstances were such that I could reasonably conclude she didn't have the funds to make the very low monthly payment required.

As this is the case, I'm satisfied that it wasn't unreasonable for Studio to have agreed to this account. And I'm currently minded to conclude that Studio didn't treat Miss C unfairly when it initially opened Miss C's account with a credit limit of £300 in December 2020.

As I've explained in the background section of this decision, Studio subsequently increased Miss C's credit limit on three occasions until it was eventually increased to a limit of £1,000.00 in December 2020.

The first two of these limit increases were relatively modest. So I wouldn't have expected Studio to have done too much more for these increases than it did when determining whether to initially provide the account. Indeed, given the limit increase in January 2020 was for only £75 there is an argument that this wasn't a significant increase and Studio didn't need to do anything at all at this stage.

In any event, the payments required to clear £675 would have been relatively low. So for much the same reasons as the reason to open the account in the first place, my findings in relation to these limit increases are the same as those for when the account was originally opened. And I'm currently not intending to uphold the complaint about the first and second credit limit increases either.

#### *The third limit increase in December 2020*

By the time of the third limit increase in December 2020, Miss C's credit limit was being increased to £1,000.00. So I would have expected Studio to have found out more about Miss C's income and expenditure (particularly about her actual regular living expenses) before providing this.

Studio has been unable to evidence having done this in this instance. As this is the case, I don't think that the checks it carried out before it provided the December 2020 limit increase were reasonable and proportionate.

Where a firm failed to carry out reasonable and proportionate checks before providing credit or increasing the amount available to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information Miss C has provided to get an idea of what Studio is likely to have learned had it carried out further enquiries into Miss C's living expenses.

In particular, I've considered the overall pattern of Studio's lending history with Miss C together with all of the information that's been provided here. And having carefully considered everything, I also think that Studio should not only have refused to have increased Miss C's credit limit to £1,000.00 but it should also have realised that the facility at its existing limit of £675 had become demonstrably unsustainable for her.

I thank Studio for its confirmation that Miss C's limit increase was provided in November 2020 and that the additional funds were available to her prior to her being formally informed of the limit increase when she was sent her December 2020 statement. I've thought about what Studio has said and while Miss C might not have already been over her credit limit at the time of this increase, it nonetheless remains the case that Miss C was at 92% of her existing credit limit at the beginning of November 2020.

Furthermore, Miss C was offered a limit increase at a time where her indebtedness had increased. While Studio says that the bureau checks showed that Miss C was well within affordability screening her behaviour score had nonetheless dropped at a time when it had had been rising for a short period. It's also worth noting that that Miss C was categorised as

being in a segment at a risk of financial difficulties either immediately before or just after this limit increase was provided.

So while Miss C might not have been granted a limit increase while she was already over her existing limit, I remained satisfied that Studio ought to have been concerned about Miss C's ability to repay what she owed and that this was proving problematic for her.

In these circumstances, I'm satisfied that Studio should have not only have decided against increasing Miss C's credit limit to £1,000.00 in November/December 2020, but that it should also have stopped providing the facility on the same terms and treated Miss C with forbearance. I'm not persuaded that the fact that it might have been the Christmas period negated the fact that Miss C's catalogue shopping account had become demonstrably unsustainable for her.

As Studio didn't react to Miss C's account usage, didn't have regard to her account activity and instead increased her credit limit in circumstances where it ought to have realised that this was unsustainable, I'm satisfied that it failed to act fairly and reasonably towards her. Miss C ended up paying extra interest, fees and charges at a time when she was already struggling.

So I'm satisfied that Miss C lost out because of what Studio did wrong and that it should put things right.

### **Fair compensation – what Studio needs to do to put things right for Miss C**

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Miss C's complaint for Studio to put things right by:

- Reworking Miss C's current balance so that all interest, fees and charges applied to it from December 2020 onwards are removed.

AND

- If an outstanding balance remains on Miss C's once these adjustments have been made (and Studio ends up owning the balance) Studio should contact Miss C to arrange a suitable repayment plan. Miss C is encouraged to get in contact with and cooperate with Studio to reach a suitable agreement for this. If it considers it appropriate to record negative information on Miss C's credit file, it should reflect what would have been recorded had it started the process of taking corrective action on the account in December 2020.

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 C 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 from Miss C's credit file.

I understand that Studio sold an outstanding balance on Miss C's account to a third-party debt purchaser. So it will need to either buy the account back from the third-party and make the necessary adjustments, pay an amount to the third party (equivalent to that which needs to be made on Miss C's account) in order for it to make the necessary adjustments, or pay

Miss C an amount (equivalent to the interest, fees and charges which need to be refunded) to ensure that it fully complies with this direction.

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

### **My final decision**

For the reasons I've explained above and in my provisional decision of 26 February 2024, I'm partially upholding Miss C's complaint. Studio Retail Limited should put things right in the way I've directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 22 April 2024.

Jeshen Narayanan  
**Ombudsman**