

The complaint

Miss R complains that Frasers Group Financial Services Limited trading as Studio ("Frasers") provided catalogue accounts to her irresponsibly because it ought to have known that she couldn't afford them.

What happened

In April 2019, Miss R opened an Ace account and was given a credit limit of £150. The credit limit was increased to £200 in May 2019. Miss R failed to make her minimum repayment in June, October and December 2019, as well as in January and March 2020. The account was closed in October 2020.

In December 2020, Miss R opened a Studio account and was given a credit limit of £375. In March 2021, the credit limit was increased to £450. In May 2021, the credit limit was increased to £600.

Miss R used some of the additional credit but failed to make the minimum repayment from July 2021 onwards. The account was defaulted in December 2021. In April 2022, Frasers sold the outstanding debt on the account to a third-party debt purchaser.

In August 2023, Miss R complained to Frasers about both accounts. She said the accounts were unaffordable and that Frasers had lent to her irresponsibly.

Frasers responded to say that as part of a previous remediation exercise it had concluded that it should not have opened the Ace account, and had refunded the interest, fees, and charges from that account. But Frasers said it had done nothing wrong in relation to the Studio account.

Unhappy with this, Miss R asked the Financial Ombudsman Service to look into what had happened.

Our investigator upheld the complaint in relation to the Studio account, but only from the final credit limit increase from £450 to £600. This was because the credit reference agency data showed Miss R had a new County Court Judgement ("CCJ") registered against her around that time.

Frasers disagreed with this. It said that at the time it offered the final credit limit increase, the new CCJ was not showing on the data it could see.

The investigator said that once Frasers was able to see the CCJ, Miss R's account balance was still below her previous limit. Frasers marked the account as potentially at risk of financial difficulty, which meant that no further credit limit increases would be offered. But the investigator felt that Frasers could then have reduced the credit limit to prevent Miss R using the additional credit and getting into more financial difficulty.

Frasers did not accept this, so I've been asked to make a decision on what should happen. I issued a provisional decision explaining why I was not planning to uphold this complaint.

Neither Frasers nor Miss R provided anything more for me to consider by the deadline I gave them.

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.

In line with my provisional decision, I've decided not to uphold this complaint. My reasons are below.

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.

Frasers needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss R 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, as well as what the lender already knew about the customer.

Frasers has already refunded all the interest, fees, and charges on the Ace account. So, it is not necessary for me to look at its lending decisions on that account. Frasers has acknowledged it shouldn't have lent to Miss R through that account and has already provided redress which matches what I'd have told it to pay.

However, at the time that Miss R opened her Studio account, Frasers was aware of the Ace account, and that is one of the things it ought to have had in mind when Miss R applied for the Studio account. Miss R had not made the minimum repayment on a number of occasions but did keep up with repayments from April 2020 until the account closed in October 2020.

At the time Miss R applied for the Studio account, Frasers used Credit Reference Agency ("CRA") data to help it decide whether or not to lend to her. This indicated an old County Court Judgement (CCJ) from more than four years before. There were historic issues with some of her accounts, but these were all more than six months before the application.

Initial decision to lend – credit limit £375

The initial credit limit was £375. There was nothing to suggest at that time that Miss R was in financial difficulty or that she would struggle to manage this credit limit. So, in the circumstances I think the check carried out was proportionate and Frasers decision to lend to Miss R was not unreasonable.

Credit limit increase from £375 to £450

The first credit limit increase to £450 on 16 March 2021 was an increase of £75. Frasers again checked Miss R's CRA data, with similar results being reported from December 2020, along with Miss R's internal account payment history over the previous 3 months, I think the checks were proportionate and the decision to increase the credit limit was not unreasonable.

Credit limit increase from £450 to £600

At time of the credit limit increase to £600, an increase of £150, Miss R's CRA data again showed nothing to suggest that Miss R was in financial difficulty. The limit increase was applied from her May 2021 statement. And at the time the decision was made the new CCJ, which I understand was probably in relation to arrears on a utility bill – although Miss R doesn't remember exactly what it was for – was not showing in the CRA data.

Given that utility bills arrears had not appeared in the CRA data available to Frasers, and Miss R had not told Frasers that she was in financial difficulty, I do not think Frasers could reasonably have known there was a problem. Miss R has told me that she prioritised interest-bearing debts over her utility bills, which meant she kept up to date with repayments on her credit accounts but fell into arrears on her utility bills.

So, at the time of the credit limit increase, and bearing in mind the size of the increase and the potential repayments, I think the checks carried out were proportionate and the decision was not unreasonable.

On discovery of the CCJ

I understand that Frasers reviews a customer's account on a monthly basis, looking at how the customer is using the account as well as at CRA data, which is updated monthly, to ensure that lending remains affordable.

The CCJ appeared on the CRA data after Frasers had made its decision to increase the credit limit. It is not clear to me that Frasers was aware of the CCJ before Miss R had made use of the additional credit. Aside from the CCJ, there was nothing else in the data available to Frasers to suggest Miss R was in financial difficulty. She was still keeping up with her repayments and was not in arrears on her other credit accounts. And Frasers says the CRA data available to it suggested that Miss R could afford a much higher credit limit than it had given her.

So, overall, I do not think it acted unreasonably in continuing to provide the credit limit of £600.

My final decision

For the reasons, I've explained, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 25 July 2024.

Phillip Lai-Fang
Ombudsman