

The complaint

Miss H has complained that Frasers Group Financial Services Limited trading as Studio (“Studio”) acted irresponsibly when it provided her with a credit facility in May 2019.

Background

Miss H opened an account with Studio in May 2019. The initial limit on the account was £150 but this was increased four times between September 2019 and October 2020 bringing the upper credit limit to £1,600.

Miss H has said that at no time was the facility actually affordable. She says when she applied for the account in May 2019 she was already struggling with her finances and overindebted. She has said the only way she was able to maintain the account was by borrowing from friends and family to help her make the monthly repayments. She has asked that all interest and fees applied to the account be refunded.

Studio has said that at the time the account was opened it ran all necessary credit checks to ensure it was affordable. Having done this it believed the account, which was opened with a modest limit of £150 was appropriate. It says over the following year Miss H’s credit rating improved which is why the limit was increased. So, it didn’t think it had done anything wrong in providing Miss H with the facility and didn’t uphold her complaint.

Unhappy with Studio’s response Miss H brought her complaint to this service. One of our investigators looked at the complaint already. She found that at the time Miss H applied for the facility in 2019 there were already signs that she was struggling to manage her existing debt. So, she didn’t think Studio should have provided Miss H with access to more credit as she didn’t think it would be sustainable. So, she upheld the complaint on that basis.

Miss H agreed with the investigator’s findings, but Studio didn’t. It said that it believes Miss H’s finances became unsustainable in 2023 following the application for credit elsewhere and that before that time she was managing her account well. So, it didn’t think it was fair to uphold the complaint now and said that the investigator was “blaming” it for problems that occurred several years after the facility was granted. It asked that an ombudsman review the complaint again and so it’s been passed to me for consideration.

My findings

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

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance, and good industry practice – is set out on our website.

The rules don’t set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, the

total cost of the credit and what it knew about the consumer at the time of application.

Studio has provided evidence to show that at the time of application it completed an income and expenditure form with Miss H, gathering information about her personal circumstances. And it also gathered information about her existing credit obligations from credit reference agencies. Given the type of credit Miss H was applying for, and the low opening limit, I think these checks were proportionate and I don't think it was necessary for Studio to have asked for more information than it did.

But just because the checks were proportionate it doesn't automatically follow that the decision to lend was reasonable, as that decision is dependent on what information the credit checks brought to light.

Looking at Miss H's circumstances in May 2019 I can see that she had a declared income of approximately £18,000. And she had existing debt over approximately £10,185. So, her income to debt ratio was already quite high. In addition to that it appears that at the point of application Miss H was already in arrears on a number of existing credit accounts, some of which were at risk of defaulting.

Studio has provided us with confirmation that Miss H was six months in arrears with another lender when she applied for the facility with it. And she also had three 'delinquent' accounts elsewhere, meaning those accounts were all at least three months in arrears as well. So that means there was evidence of up to four accounts on Miss H's credit file that were at genuine risk of default when Studio approved her application for a new credit facility.

I appreciate that the account was opened with a low limit and Studio has said that the approximate minimum repayment on it was only £9 a month. But the checks that credit providers are expected to carry out aren't just concerned with the affordability of new credit but also the sustainability of any new credit provided. Given Miss H was clearly struggling to maintain the credit facilities she already had, I don't think it was appropriate to provide her with access to additional credit, no matter how low the potential repayments may have been.

Therefore, I agree with the findings of the investigator and am upholding the complaint based on the lending decision made in May 2019. I don't agree with Studio's assertion that Miss H didn't become financially vulnerable until 2023. Rather I think there were clear indicators she was already experiencing financial stress at the point she applied for the credit in May 2019 and Studio should have refused her application on that basis. And because of that I am upholding her complaint.

Putting things right

In order to put things right Studio should:

- Rework Miss H's account removing all interest, fees, charges, and insurances (not already refunded) that have been applied since it was opened in May 2019
- If the rework results in a credit balance, this should be refunded to Miss H along with 8% simple interest per year* calculated from the date of each overpayment to the date of the settlement. Studio should also remove all adverse information regarding this account from Miss H's credit file
- Or, if after the rework there is still an outstanding balance, Studio should arrange an affordable repayment plan with Miss H for the remaining amount. Once Miss H has cleared the balance, any adverse information in relation to the account should be removed from her credit file

* HM Revenue & Customs requires Studio to deduct tax from any award of interest. Studio must give Miss H 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 the tax.

My final decision

For the reasons set out above I uphold Miss H's complaint against Frasers Group Financial Services Limited trading as Studio.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 9 October 2024.

Karen Hanlon
Ombudsman