DRN-5017911

The complaint

Miss L complains that Frasers Group Financial Services Limited trading as Studio was irresponsible in its lending to her. She wants all interest and charges applied to the account to be refunded along with statutory interest and any adverse information to be removed from her credit file.

Miss L is represented by a third party but for ease of reference I have referred to Miss L throughout this decision.

What happened

Studio opened an account for Miss L in May 2019. Her initial credit limit was set at £150. The credit limit was increased on seven occasions to £850 in November 2023.

Miss L said that adequate checks weren't undertaken before Studio provided her with credit and before the credit limit increases were applied to her account. She said that she struggles to afford the minimum repayments on the account and that her balance is often close to or exceeding her credit limit. She said this credit is unaffordable and the stress of the repayments is affecting her mental health.

Studio issued a final response in May 2024. It said that its lending decisions were based on assessments of a customer's overall creditworthiness including factors such as income stability and repayment ability. It said that the credit limit increases were applied after analysis of Miss L's account activity and payment patterns and that she demonstrated ability to handle credit responsibly. Studio didn't accept that it had acted irresponsibly by providing the credit. It said there was no evidence that the repayments were unaffordable for Miss L.

Miss L wasn't satisfied with Studio's response and referred her complaint to this service.

Our investigator didn't think that Studio had acted irresponsibly by opening an account for Miss L with an initial credit limit of £150. She also thought that Studio hadn't acted unreasonably by providing the first two credit limit increases. However, by the time of the third credit limit increase, she noted that Miss L had exceeded her credit limit for three consecutive months and her repayments weren't bringing the account back within the limit. Given this she thought there was significant risk that Miss L wouldn't be able to repay what she owed within a reasonable amount of time and so a further credit limit increase shouldn't have been applied. She also didn't think that any of the subsequent credit limit increases should have been given. Therefore, she upheld this complaint in regard to the credit limit increases from December 2019.

Studio didn't agree with our investigator's view. It said that before the credit limit increase in December 2019, Miss L had only missed one payment four months earlier and had on occasions been paying more than the minimum payment. It said that external data was used to assess affordability and that at this time there were no abnormal affordability assessment indicators such as delinquent accounts. It said for the subsequent credit limit increases there were no indicators externally or internally that suggested the new credit limit wasn't affordable.

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.

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, and the total cost of the credit.

Miss L was provided with a credit account by Studio in May 2019 with an initial credit limit of £150. Before the account was provided Studio gathered information about Miss L's income and a credit check was undertaken. As the credit check didn't raise any concerns and the affordability check suggested Miss L had disposable income of around £300, I do not find that Studio did anything wrong by opening an account for Miss L with an initial credit limit of £150.

Miss L's credit limit was then increased to £200 in July 2019 and to £350 in October 2019. I have considered Miss L's account management before these increases were applied. Miss L had kept her account within the credit limit and had made payments towards her account. However, Miss L had incurred a missed payment fee on 7 August 2019. While this could have raised concerns, she did then bring her account up to date and made a large payment towards the account to ensure that it remained within the credit limit. Taking this into account and noting the size of the credit limit I do not find I have enough to say that these credit limit increases were irresponsible.

Following the October 2019 credit limit increase, Miss L exceeded her credit limit. She remained in excess of her credit limit from 29 October 2019 until the credit limit increase in December 2019. While Miss L did make payments towards her account on 4 November and 5 December these didn't bring the account back to within the credit limit. So, while I note Studio's comment that Miss L had only missed one payment, and the external data didn't raise issues, I find that her account management did raise concerns. It suggested that Miss L wasn't able to manage her account at the then existing credit limit and I do not find that a reasonable response to this was to raise the credit limit. Based on the evidence provided I do not find that Studio acted responsibly by increasing Miss L's credit limit to £450 in December 2019.

Studio increased Miss L's credit limit on four more occasions. I note Studio's comment about Miss L only making three orders and having no missed payments before the April 2020 increase and only making two orders and having one missed payment before the October 2020 increase. While Miss L may have only made limited use of the account, I note that she remained near her credit limit for a large part of this period. While she was making her payments these were not making any sustained significant reductions to her outstanding balance and so I do not find that I have evidence that Miss L's circumstances had improved such that further credit limit increases were reasonable at this time.

In the following months prior to the credit limit increases in September 2021 and November 2023, Miss L missed payments and I do not find that her account management suggested her financial circumstances were improving such that further credit limit increases should have been considered reasonable.

In conclusion I do not find that Studio should have increased Miss L's credit limit to £450 in December 2019 or applied the subsequent credit limit increases.

I've also considered whether Studio acted unfairly or unreasonably in some other way given what Miss L has complained about, including whether its relationship with Miss L might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Miss L in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

Studio should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £350 from December 2019.

- If the rework results in a credit balance, this should be refunded to Miss L along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Studio should also remove all adverse information recorded after December 2019 regarding this account from Miss L's credit file.

- Or, if after the rework the outstanding balance still exceeds £350, Studio should arrange an affordable repayment plan with Miss L for the remaining amount. Once Miss L has cleared the outstanding balance, any adverse information recorded after December 2019 in relation to the account should be removed from their credit file.

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

My final decision is that I uphold this complaint. Frasers Group Financial Services Limited trading as Studio should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 15 November 2024.

Jane Archer
Ombudsman