DRN-5043634

The complaint

Mr S complains that Frasers Group Financial Services Limited trading as Studio was irresponsible in its lending to him. He wants all interest charged to be refunded along with statutory interest and any adverse information to be removed from his credit file.

What happened

Mr S says that he was provided with a credit account by Frasers in 2019 with an initial credit limit of £300. Over the years his credit limit was increased to £1,600. He says the credit limit increases were applied without adequate checks taking place. He said if reasonable checks had happened Frasers would have seen he had other debts including other catalogue debts. He says that given the high interest rate he was only able to make the minimum repayments and has since been put on a debt management plan.

Frasers issued a final response saying that its lending decisions are not only based on credit scores but on an individual's overall credit worthiness including factors such as income stability and repayment ability. It said Mr S was provided with an account with an initial credit limit of £300 and that this was increased on five occasions between February 2020 and October 2022. It said analysis of Mr S's account activity and repayment patterns as well as assessment of external data was undertaken before the credit limits were applied. It didn't accept that it had lent irresponsibly and said it had shown forbearance when Mr S had contacted it by applying breathing space to his account.

Mr S wasn't satisfied with Frasers' response and referred his complaint to this service.

Our investigator didn't think that Frasers did anything wrong by providing Mr S with the account in November 2019. He also didn't think that it was wrong to provide the first four credit limit increases. However, he thought given the amount of credit being provided and the time that had passed since the initial checks were undertaken, that Frasers should have carried out additional checks before the fifth credit limit increase was applied. He found that had further checks taken place, Frasers would have realised that the credit limit increase was unaffordable for Mr S.

Frasers didn't agree with our investigator's view. It said that Mr S's account performance had been good with Mr S only falling into arrears in 2024, 13 months after the final credit limit increase. It said that before the final credit limit was applied it utilised data from a credit reference agency to assess the affordability of the increase and to validate Mr S's income. It said the increase to £1,600 was below the maximum affordable amount.

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.

Before the account was provided in November 2019, Frasers gathered information about Mr S's income and carried out a credit check. Having looked at the credit check results these didn't show any county court judgments, recent defaults or payment issues. Mr S's income was verified with a credit reference agency, and he was recorded as having disposable income of £576. Noting the size of the initial credit limit I find the checks were reasonable and as these didn't raise concerns about the affordability of the lending, I do not find that Frasers was wrong to provide Mr S with the account.

Frasers increased Mr S's credit limit on three occasions in 2020 (to £600 in February, £750 in April and £900 in October). During this period, Mr S had maintained his account balance comfortably within the relevant credit limit and was making his repayments on time. Therefore, I don't find that his account management raised concerns. The increases were applied within a year of the initial checks being undertaken, and I do not find this raised concerns about the affordability of the credit limit increase. Therefore, I do not find that I can say Frasers did anything wrong by providing this additional credit.

In November 2021, around two years after the account was provided to Mr S, his credit limit was increased to £1,000. Before the credit limit increase, Mr S had maintained his account within the credit limit. He had utilised less than 50% of the limit in the preceding few months. Mr S had made the required repayments and was paying slightly above the minimum amount. Noting the size of the limit increase, Mr S's account management and the other information available, I do not find that I have enough to say that further checks were needed at this time or that the additional lending was irresponsible.

A final credit limit increase was applied to Mr S's account in October 2022. This was a £600 increase and brought Mr S's credit limit to £1,600. While Mr S's account management didn't raise concerns, I think given the time that had passed since the initial lending was provided and noting the size of the increase and that the new credit limit was more than five times the initial limit, that it would have been reasonable for Frasers to carry out further checks to ensure the additional lending was affordable for Mr S.

Frasers has said that it verified Mr S's income before the final credit limit increase. Looking at Mr S's bank statements these support the annual income figure Mr S had previously provided. Frasers has said that it carried out checks of internal and external data and so I would have expected it to have noted that Mr S had several other credit commitments which I think should have raised concerns about providing further credit to Mr S. While I do not find that Frasers was required to request copies of Mr S's bank statements, I think it should have undertaken further checks to get a clearer understanding of Mr S's financial situation at the time. I have used the information in Mr S's bank statements to provide an indication of what further checks would have shown.

Having done so, Mr S's monthly income from his salary and benefits was around £3,460 and he was taking on an increasing amount of debt. His payments to existing creditors in the months leading up to the final limit increase averaged around 70% of his income and I think this should have raised concerns that Mr S would likely struggle to afford any additional commitments. Mr S also had housing and other household and general living costs. Taking these into account, I do not find that Frasers should have considered providing Mr S with further credit at this time sustainably affordable.

I note Frasers comment that Mr S was able to meet his repayments for a number of months after the credit limit increase and that he didn't make use of the additional credit for several months, but I do not find that this means the increase was sustainably affordable for Mr S. Mr S was borrowing elsewhere and appeared to have become dependent on a high level of debt. While he didn't utilise the additional credit for a number of months, he did still use this allowing him to get further into debt.

Taking everything into account I think it would have been reasonable for further checks to have taken place before the final credit limit increase was applied and had these happened, I find it likely that Frasers would have realised that the additional lending wasn't sustainably affordable for Mr S.

I've also considered whether Frasers acted unfairly or unreasonably in some other way given what Mr S has complained about, including whether its relationship with him might've 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 Mr S in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

As I don't think Frasers should've increased Mr S's limit above £1,000, I don't think it's fair for it to be able to charge interest or charges on any balances which exceeded that limit. However, Mr S has had the benefit of all the money spent on the account, so I think he should repay this.

To resolve Mr S's complaint, Frasers should: -

- Rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied to balances above £1,000 after 24 October 2022.

- If the rework results in a credit balance, this should be refunded to Mr S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Frasers should also remove all adverse information recorded after 24 October 2022 regarding this account from Mr S's credit file.

- Or, if after the rework, the outstanding balance still exceeds £1,000, Frasers should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the outstanding balance, any adverse information recorded after 24 October 2022 in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires Frasers to deduct tax from any award of interest. It must give Mr S a certificate showing how much tax has been taken off if he 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 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 Mr S to accept or reject my decision before 18 November 2024.

Jane Archer
Ombudsman