

The complaint

Ms R complains that Frasers Group Financial Services Limited trading as Studio was irresponsible in its lending to her. She wants all interest and charges paid under the agreement refunded along with statutory interest and any adverse information removed from her credit file.

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

What happened

Ms R was provided with a Studio credit account in February 2019. She said that she had a high level of existing debt at the time the credit was provided and that the repayments under the agreement were unaffordable. She said that adequate credit worthiness and affordability checks weren't carried out before she was given the credit and had these happened the lending wouldn't have been provided.

Studio issued a final response to Ms R's complaint. It said that it followed strict guidelines and regulations when assessing credit applications and its decisions are based on credit scores and an individual's overall credit worthiness. It explained that Ms R was initially provided with a credit account with a £150 credit limit and that seven credit limit increases were applied between December 2019 and August 2021. It also noted that two credit limit decreases were applied between December 2022 and July 2023. Studio said that it undertook careful analysis of Ms R's account activity before the limit increases were applied and Ms R demonstrated ability to handle the credit responsibly. It didn't accept that it had lent irresponsibly.

Ms R referred her complaint to this service.

Our investigator thought the checks carried out before the account was opened were proportionate and that these didn't raise concerns about the lending. However, he thought that Ms R's account management before the first credit limit increase showed she wasn't consistently making her repayments on time. He didn't think her account management supported a credit limit increase and thought that Studio had acted irresponsibly by increasing her credit limit above the initial limit provided.

Studio didn't accept our investigator's view. It said the initial credit limit increase resulted in Ms R's minimum repayment increasing from £10 to £12 which was deemed insignificant. It said Ms R's account hadn't been in late arrears in the previous six months and hadn't fallen into arrears by more than one missed payment. It noted that Ms R had a good credit worthiness score and no adverse indications on her external data. In regard to the subsequent credit limit increases Studio said that Ms R had missed occasional payments but then brought her account up to date and that she had a good credit worthiness score. It said that while Ms R did receive late fees, she then brought her account up to date within a few days.

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.

Account opening

Ms R was provided with a credit account by Studio in February 2019 with an initial credit limit of £150. Before the credit was provided, Studio gathered information about Ms R's income. Ms R declared an income of £27,000 and Studio's information records her monthly disposable income as £792. A credit check took place which showed she had four active accounts that had been open for more than 12 months and these were up to date. I haven't seen evidence of the calculations of Ms R's disposable income, but as the credit check didn't show any major issues and noting the credit limit compared to Ms R's declared income, I do not find that this raises concerns that the credit being provided was unaffordable.

Credit limit increases

Ms R's credit limit was increased on seven occasions between December 2019 and August 2021. Studio has said that it undertook careful analysis of Ms R's account activity before the limit increases were applied.

I have looked at Ms R's account activity before the first limit increase was applied in December 2019. This shows that between account opening and the limit increase, Ms R had missed payments in May, June, August and October 2019 and exceeded her credit limit in these months. While I note Studio's comment that the increase applied was small (£50), and Ms R had brought her account up to date, I think her account management should have raised concerns. Ms R wasn't managing the account within the account terms and this could raise concerns about her wider financial circumstances. Given this, I do not find that Studio acted responsibly by providing a credit limit increase in December 2019.

As I do not find the initial credit limit increase should have been applied, I would need to see that there had been a significant improvement in Ms R's financial circumstances to be satisfied that any future credit limit increases were responsible.

Before the second credit limit increase, Ms R's account utilisation was recorded as over 100% and her account was over its limit in the month before the increase. I think this should have raised concerns that Ms R wasn't managing her existing level of credit well and so a further increase wasn't responsible. While Ms R did then appear to manage her account in line with the terms for the next few months, given the next credit limit increase took place in May 2020, and Ms R had been over her limit within the previous six months, I still think at this point that a further limit increase shouldn't have been considered responsible. While there were then further credit limit increases, as Ms R's account balance doesn't appear to have exceeded the limit applied in May 2020, I do not find that the additional increase will have caused her any material disadvantage.

I've also considered whether Studio acted unfairly or unreasonably in some other way given what Ms R has complained about, including whether its relationship with Ms R might have been viewed as unfair by a court under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Ms R 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

As I don't think Studio should have increased Ms R's credit limit above £150, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Ms R has had the benefit of the money she spent on the account so I think she should pay this back. Therefore, Studio should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £150 after 29 December 2019.
- If the rework results in a credit balance, this should be refunded to Ms R 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 29 December 2019 regarding this account from Ms R's credit file.
- Or, if after the rework the outstanding balance still exceeds £150, Studio should arrange an affordable repayment plan with Ms R for the remaining amount. Once Ms R has cleared the outstanding balance, any adverse information recorded after 29 December 2019 in relation to the account should be removed from her credit file.

If Studio has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

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 Ms R to accept or reject my decision before 6 February 2025.

Jane Archer
Ombudsman