DRN-5404405

The complaint

Mr L complains that Frasers Group Financial Services Limited trading as Studio (Studio) acted irresponsibly when they agreed to the opening of a catalogue account and subsequent credit limit increases.

In bringing his complaint Mr L is represented by a third party. For ease of reading I will only refer to Mr L in my decision.

What happened

In May 2018 Mr L successfully applied for a catalogue account with Studio and a £125 credit limit was applied. In August 2018 the credit limit was increased to £200. And there followed between June 2021 and May 2024 a further seven increased credit limits of £250 upto £1,600. Mr L said he was already struggling financially and by Studio not checking whether he could afford to sustain the repayments they'd added to his financial burden. He complained to Studio.

Studio said they'd considered Mr L's overall credit worthiness, not only by checking his financial history but also taking steps to check Mr L's income stability and repayment ability. And based on these they said they'd made fair lending decisions.

Mr L wasn't happy with Studio's response and referred his complaint to us.

Our investigator said the checks Studio did for the initial account opening were proportionate and fair. But the subsequent credit limit increases weren't. She said there was evidence that Mr L would struggle to sustain his repayments so Studio shouldn't have lent further to him. She asked Studio to:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £125 after August 2018.
- If the rework results in a credit balance, this should be refunded to Mr L along with 8% simple interest per year calculated from the date of each overpayment to the date of settlement.
- Remove all adverse information recorded after August 2018 regarding this account from Mr L's credit file. Or, if after the rework the outstanding balance still exceeds £125, arrange an affordable repayment plan with Mr L for the remaining amount.
- After any outstanding balance has been settled remove any adverse information recorded after August 2018 in relation to the account.

And said that should Studio have sold the debt to a third party; they should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out was carried out promptly.

Studio disagreed and asked for an ombudsman to decide.

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.

I've considered what Studio has said about how Mr L managed his account and the low level of borrowing in the early stages of the relationship. And I've also looked at the overall pattern of their lending history with Mr L together with all the information that's been provided here. And having carefully considered everything, I also think that the credit limit increases from August 2018 shouldn't have been provided. I'll explain why.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website.

The relevant rules, regulations, and guidance at the time of each of Studio lending decisions required them to carry out reasonable and proportionate checks. These checks needed to assess Mr L's ability to afford the credit limit being approved and to be able to repay it sustainably, without causing him financial difficulties or harm.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, considering things like the type, amount, duration, and total cost of the credit, as well as the borrower's individual circumstances. It isn't sufficient for Studio to just complete proportionate checks – they must also consider the information obtained from these checks to make fair lending decisions. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without the need to borrow further.

So, I've considered the checks Studio did and what they found from these checks.

Studio said they verified Mr L's income using industry recognised credit reference agency data; and that it completed a credit check to understand his credit commitments and looked to see how he managed his accounts. And that they did this before each limit increase as well as reviewing how Mr L managed the account he'd with them. And based on these they were satisfied their checks were proportionate and their lending decisions were fair.

Mr L's account was opened in May 2018 with a credit limit of £125. The catalogue shopping account Studio provided was a revolving credit facility. This meant that Studio was required to understand whether Mr L could repay £125 within a reasonable period. A credit limit of £125 required small monthly payments to clear the full amount owed within a reasonable time.

From Studio's records their checks showed Mr L had an annual salary of £27,680, six active accounts one of which was one month in arrears. And that there had been two credit searches in the preceding three months. Given the low-level type of borrowing being provided and the financial impact to Mr L I'm satisfied these checks were sufficient. And although Mr L was in arrears I don't think this was enough given the low level of borrowing to have caused Studio to have checked further. So, I'm satisfied their lending decision was fair.

In August 2018, three months later Studio increased Mr L's credit limit to £200, still a relatively low level of borrowing and Studio carried out the same checks. But these now showed a considerable drop in Mr L's income to £16,000 and in that short space of time their checks showed he was now three months in arrears with one of his accounts. Studio also had Mr L's data on his account management, this showed he was using 98% of his credit limit and was only making the minimum repayment required. I take on board Studio's comment that the increased credit limit would have had a minimal impact on Mr L's financial commitments, but given he was struggling to meet existing financial commitments, and this had worsened over a short period of time I think Studio should have checked further before they agreed to lend further.

Mr L has given us his credit report which should provide an understanding of what Studio could have seen at the time. I can see from this that Mr L had fallen into arrears with priority bills – utilities, his telecommunications account was under review and for one of his bank accounts his report showed he was six months in arrears.

Mr L has also provided his bank statements for the period leading up to the increased credit limit. For the level of borrowing Studio was providing I wouldn't expect them to ask for Mr L's bank statements ordinarily but as I think Studio needed to check further, I think they are a strong indication of what Mr L's financial situation was at the time of the credit limit increase and could show the cause of his financial difficulties.

These show Mr L had a regular income of around £1,450 a month. But I can also see they showed signs of Mr L being financially vulnerable as there is evidence of unpaid direct debits for priority bills, monies being borrowed and repaid to and from relatives, payments to debt collectors and regular gambling activity. In the month prior to the credit limit increases I can see that Mr L's salary was paid in and within a day there was little left to meet his commitments for the remainder of the month. And I think had Studio seen the evidence I have I think it's more likely than not that they wouldn't have agreed to increase Mr L's credit limit in August 2018 and by extension all credit limit increases beyond. I say this as any lending should be borrower focussed; this means its not simply Studio considering whether Mr L can pay back the monies borrowed. But the financial impact this would cause to Mr L in paying this back. Mr L was already struggling to meet his financial commitments so any additional financial burden no matter how small would only have added further to his difficulties.

Studio also said Mr L had managed his account with them well and they hadn't seen any signs of financial difficulty. But following the credit limit increase in August 2018 I can see that Mr L exceeded his new credit limit within a month. Consistently only paid the minimum payment required and over the following two years was regularly over his credit limit before Studio increased his credit limit further.

I've also considered whether Studio has acted unfairly or unreasonably in some other way given what Mr L has complained about, including whether their relationship with Mr L might have been viewed as unfair by a court under Section 140A Consumer Credit Act 1974. But I'm satisfied the redress I've directed below results in fair compensation for Mr L in the circumstances of his complaint, no additional award would be appropriate in this case.

Putting things right

In circumstances such as these Mr L has had the benefit of the goods he's acquired from Studio and its only fair that he should pay this back. But he shouldn't have to pay for any interest, charges and insurances that have been applied to the account above £125. So, for Frasers Group Financial Services Limited trading as Studio to put things right they should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £125 after August 2018.
- If the rework results in a credit balance, this should be refunded to Mr L along with 8% simple interest* per year calculated from the date of each overpayment to the date of settlement.
- Remove all adverse information recorded after August 2018 regarding this account from Mr L's credit file. Or, if after the rework the outstanding balance still exceeds £125,

arrange an affordable repayment plan with Mr L for the remaining amount. And once any outstanding balance has been settled remove any adverse information recorded after August 2018 in relation to the account.

If Studio has sold Mr L's debt to a third party, they should buy it back and then take the above steps. If they're unable to buy the debt back, they should liaise with the new debt owner to achieve the results outlined above.

*HM Revenue and Customs requires Studio to deduct tax from any award of interest. They must give Mr L a certificate showing how much tax has been taken off if he asks for one.

My final decision

I uphold this complaint. And ask Frasers Group Financial Services Limited trading as Studio to put things right as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 4 June 2025.

Anne Scarr
Ombudsman