

## **The complaint**

Miss M complains Frasers Group Financial Services Limited trading as Studio (Studio) irresponsibly agreed lending she couldn't afford.

## **What happened**

In November 2019 Miss M applied for a catalogue account with Studio. Her application was successful and Studio applied a credit limit of £200. Studio increased Miss M's credit limit in July 2020 to £450 and in July 2021 to £875. As Miss M started incurring late payment fees her credit limit was reduced to £720 in March 2022 and a further four times down to £470 by July 2024. Miss M said she struggled with the repayments and that Studio should have seen before they agreed to lend to her that she was young, on a low income and had a poor credit history. Miss M complained to Studio.

Studio said they'd checked Miss M's account activity, repayment patterns and how she handled credit responsibility. They said they'd checked external and internal data and based on this considered the credit limits to be affordable. They added that Miss M had managed her account well until November 2021. After which they'd reduced Miss M's credit limits.

Miss M wasn't happy with Studio's response and referred her complaint to us.

Our investigator said Studio's checks had been proportionate but they hadn't made a fair lending decision. He asked Studio to:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- Should the rework result in a credit balance, this should be refunded to Miss M 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 regarding this account from Miss M's credit file.
- Or, if after the rework there is still an outstanding balance, Studio should arrange an affordable repayment plan with Miss M for the remaining amount. Once Miss M has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

Studio didn't agree. They said they'd considered Miss M's income and expenditure. Her indebtedness was low and she'd no defaults or county court judgements with no recent delinquencies. Based on this the lending should have been affordable for her. They 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.

Having done so I'm upholding this complaint. I'll explain why.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website.

Studio needed to take reasonable steps to ensure that they didn't lend irresponsibly. What this means is that they should have carried out proportionate checks to make sure Miss M could afford to repay what she was being lent in a sustainable manner.

These checks should take account of a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. But certain factors might point to the fact that Studio should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors, are not limited to but, include:

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable. I've kept all of this in mind when deciding Miss M's complaint.

Miss M's account was opened in November 2019 with a credit limit of £200. The catalogue shopping account Studio provided Miss M with was a revolving credit facility. This meant that Studio was required to understand whether Miss M could repay £200 within a reasonable period.

Studio have provided details of the checks they did. Given the lending was for a small amount I think by checking Miss M's income and credit history Studio's checks were proportionate to the lending they were providing. But from these checks they assessed Miss M's annual income to be £6,000. And after considering her income and expenditure she'd have a disposable income each month of £15. They also found Miss M was in an arrangement with one of her accounts and was one month in arrears.

To repay a credit limit of £200 would require small monthly payments to clear the full amount. I'd expect this to be around £10 a month. As Studio considered Miss M had only £15 in disposable income this would have left Miss M with only £5 a month, after factoring the new lending if she drew down the full amount, to cover any discretionary and unexpected spending. Studio's checks had also highlighted she'd experienced financial difficulties. So although the lending was low I don't think Studio made a fair lending decision as the impact on Miss M to sustain the repayments was unfair.

As I don't think the account should have been approved by extension neither should any subsequent lending have been agreed.

I've thought carefully about Studio's comments especially those made in response to the investigator's assessment. But they don't change my mind about the outcome of the complaint. Studio reiterated the checks they did, which as outlined above I think were proportionate to the lending. And they've confirmed they found Miss M to have only £15 in disposable income, with their own assessment that she'd need to pay around £12 a month to settle the debt in a reasonable period, which I don't think was sustainable. Studio has said

Miss M managed her account well up to November 2021. But in managing her account as I don't think the lending decision was fair upon the opening of the account it wouldn't be fair for me to reassess my decision based on how the account was managed in hindsight.

So I'm satisfied that Miss M lost out because of what Studio did wrong and that they should put things right.

I've also considered whether Studio acted unfairly or unreasonably in some other way given what Miss M has complained about, including whether their relationship with Miss M could have been viewed as unfair by a court under Section 140A Consumer Credit Act 1974 (CCA). But I'm satisfied the redress I've directed below results in fair compensation for Miss M 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**

Where credit has been provided when it shouldn't have been, I think it's fair and reasonable for Miss M to pay back the funds she's lent. But not the interest or any other charges that Studio has applied. I'd also expect Studio to remove any adverse information they've reported to the credit reference agencies about Miss M's catalogue account.

### **My final decision**

I uphold this complaint. And ask Frasers Group Financial Services Limited trading as Studio to:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss M along with \*8% simple interest on the overpayments from the date they were made until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Studio should remove any adverse information from Miss M's credit file.
- Or, if after the rework there is still an outstanding balance, Studio should arrange an affordable repayment plan with Miss M for the remaining amount. Once Miss M has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

\*HM Revenue & Customs requires Frasers Group Financial Services Limited trading as Studio to take off tax from this interest. They must give Miss M a certificate showing how much tax they've taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 5 May 2025.

Anne Scarr  
**Ombudsman**