DRN-5472002

The complaint

Mr C complains that Frasers Group Financial Services Limited trading as Studio acted irresponsibly by agreeing to open a catalogue account and to provide subsequent credit limit increases.

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

What happened

In October 2017 Mr C applied for a catalogue account with Studio. His application was successful and his account was opened with a credit limit of £100. Studio increased Mr C's credit limit in March 2018 to £300 and in October 2020 to £1,400. Mr C said he struggled to maintain the repayments and Studio hadn't properly checked whether he could afford the lending. He complained to Studio.

Studio said they'd checked Mr C's affordability for each of the credit limits applied. They said their checks were borrower focussed and proportionate to the lending they provided.

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

Our investigator said Studio's checks on account opening and the first credit limit increase were fair in respect of the amount being lent. But said Studio hadn't made a fair lending decision when they increased Mr C's credit limit to £1,400 as Mr C was showing signs of financial vulnerability.

Studio didn't agree 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've taken that approach into account in considering Mr C's complaint.

This means before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, but they need to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. As a lending relationship continues over time and the level of credit increases, lenders may need to obtain further information from a borrower to check whether they're lending responsibly and that the repayments are sustainable for the customer.

So, in reaching my decision I need to consider:

1. Did Studio complete reasonable and proportionate checks to satisfy themselves that Mr C

would be able to sustainably repay the borrowing?

a. If they did, was the decision to then lend to Mr C fair?

b. If they didn't, would reasonable and proportionate checks have shown that Mr C could sustainably repay the borrowing?

2. Did Studio act unfairly or unreasonably in some other way?

The affordability checks should be "borrower-focused", meaning Studio need to think about whether repaying the lending sustainably would cause difficulties or adverse consequences for Mr C In other words, it wasn't enough for Studio to think only about the likelihood that they would get their money back without considering the impact of repayment on Mr C himself.

Upon opening his account Mr C was provided with a £100 credit limit. The catalogue shopping account Studio provided Mr C with was a revolving credit facility. This meant that Studio was required to understand whether Mr C could repay £100 within a reasonable period.

On opening the account Studio checked Mr C's affordability with data provided by a credit reference agency (CRA). This estimated Mr C had an annual income of £18,000 and gave Studio an understanding of his credit commitments. Given the low level of lending being considered I'm satisfied the checks were proportionate for the type of lending being provided.

The first credit limit increase in March 2018 was also modest from £100 to £300. So, I wouldn't have expected Studio to have done too much more for this increase than it did when determining whether to initially provide the account. And they also had the additional information about how Mr C was managing his account with them.

The payments required to clear £300 within a reasonable period would have been relatively low. So, for much the same reasons I'm satisfied the checks Studio did were proportionate and fair for the lending they provided.

I've considered what Studio has said and have also looked at the overall pattern of their lending history with Mr C together with all the information that's been provided here. And having carefully considered everything, I don't think the limit increase in October 2020 should have been provided.

At the point Studio increased Mr C's limit to £1,400 in October 2020 I think proportionate checks should have included Studio obtaining a full understanding of Mr C's financial circumstances, by verifying his actual income and expenditure.

But I've seen evidence within the data Studio has provided from August 2019 through into 2020 that Mr C was showing signs of financial vulnerability as he was in arrears with his external debt. His positioned worsened with the worst status showing by April 2020 that he was six months in arrears. But I can see that by May 2020 Mr C was again up to date with his financial commitments. And by October 2020 he'd cleared his outstanding balance with Studio. So, at the time of the credit limit increase Mr C appeared to be in a better financial situation. Studio has shown Mr C had cleared his outstanding balance with them in full just prior to the credit limit increase.

But Mr C's history with Studio shows that he'd done this before only to then utilise his credit limit to over 90% within the following month. And over his limit within six months.

So, I don’t think that Mr C clearing the balance is that relevant. As before the question is whether Mr C would be able to settle any lending within a reasonable period. I can see Mr C paid over a 12-month period leading up to the credit limit increase on average of around £40 a month. Considering Mr C’s new credit limit would be £1,400, to settle this in a reasonable period, if fully drawn down, would require Mr C to pay around £70 a month.

Overall, I think the indications were that Mr C had recently struggled with his finances when his existing credit limit with Studio was £300. I can’t see any persuasive evidence to suggest he could sustainably cope with an extra £1,100 of credit.

Any lending should be borrower focussed and given Mr C’s recent financial vulnerability I don’t think it was responsible of Studio to add to his financial burden as he’d be expected to regularly pay substantially more than he’d been paying previously. And I think this would have placed an unfair financial burden on to Mr C.

I’ve also considered whether Studio acted unfairly or unreasonably in some other way given what Mr C has complained about, including whether their relationship with him 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 C 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 consider Studio should have increased Mr C’s credit limit above £300, I don’t think it’s fair for them to charge any interest or fees on any balances which exceeded that limit. But I do think Mr C should pay the cash price for any goods he’s kept.

My final decision

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

- Rework Mr C’s account removing all interest (including any Buy Now Pay Later interest), fees and charges applied to balances above £300 after October 2020.
- If the rework results in a credit balance, this should be refunded to Mr C 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 October 2020 regarding this account from Mr C’s credit file. Or
- If after the rework an outstanding balance still remains, they should arrange an affordable repayment plan with Mr C for the remaining amount. Once Mr C has cleared the outstanding balance, any adverse information recorded after October 2020 in relation to the account should be removed from Mr C’s credit file.

*HM Revenue & Customs requires Frasers Group Financial Services Limited to deduct tax from any award of interest. It must give Mr C 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.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr C to accept or reject my decision before 13 May 2025.

Anne Scarr
Ombudsman