

The complaint and what happened

In December 2018 Frasers Group Financial Services Limited, trading as Studio approved a catalogue shopping account with an initial limit of £150 for Miss J. It then increased that limit several times, as follows:

Date	Increased credit limit
February 2019	£200
July 2019	£250
September 2019	£350
August 2020	£450
October 2020	£1,550
November 2021	£1,600

From the summer of 2022, Miss J began to struggle to keep up with repayments, and Studio “...initiated its arrears recovery procedure...” before the account went into default in September 2022. However, it would appear that her account continues to be owned by Studio and has not been sold to a third party.

After Studio rejected Miss J’s complaint that she could not afford this borrowing, she brought the case to our service. One of our investigators looked at the evidence and thought that, whilst the account opening and first credit limit increase were fair, Studio should not have increased Miss J’s credit limit in July 2019, or thereafter. Miss J accepted that, but Studio didn’t, and asked that the case be passed to an Ombudsman for review. As Miss J has accepted that Studio wasn’t wrong to provide her with the account at the outset, this decision will only consider the credit limit increases on the account.

I’ve included relevant sections of my provisional decision from November 2023, which form part of this final decision. In my provisional decision I set out the reasons why I was planning to uphold this complaint, albeit from a later date than that identified by the investigator. In brief that was because I thought the evidence ought to have led Studio to conclude that the credit limit increases it actioned from August 2020 were not affordable for Miss J.

I asked both parties to let me have any more information they wanted me to consider. Miss H accepted my provisional findings and Studio did not respond.

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 it, for the key reason set out above, but I’ve also included here the relevant sections of my provisional decision:

“What I’ve provisionally 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 planning to uphold this complaint in part, but from a later date than that identified by the investigator, and I'll explain why.

Studio is aware of its obligations under the rules and regulations in place at the time of these credit limit increases, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Miss J would be able to repay the borrowing it was making available to her in a sustainable way. As set out in CONC 5.3.1G(2) that means that she could manage the repayments,

"...without...incurring financial difficulties or experiencing significant adverse consequences"

Essentially, Miss J needed to be able to meet all her financial commitments and not have to borrow elsewhere to repay Studio for the credit limit to be considered affordable and sustainable.

The first question I have to consider is whether the checks Studio carried out before increasing Miss J's limit were proportionate. Studio seems to have carried out a high-level credit check, and had the benefit of seeing how Miss J had managed her account, before increasing the credit limit. The investigator noted that Miss J had exceeded her existing limit in the two months prior to Studio increasing it in July 2019. She thought on that basis, Studio knew enough to identify that there was an affordability risk for her, and so should not have increased the limit.

I disagree. Given the comparatively modest excesses on the existing credit limit, and the similarly modest increases being considered, I think Studio ought to have carried out more in-depth checks in July 2019, and again in September 2019. I don't think what it did was proportionate to the potential concerns. But, despite asking, Miss J has not provided any evidence as to her financial circumstances at that time. So I'm unable to conclude that proportionate checks would have led Studio to conclude that these increases were not affordable and sustainable for Miss J.

However, I provisionally conclude that by August 2020, Studio knew enough to identify exactly that. I say that based on the conduct of her account with Studio and the information it routinely gathered about her. Of key concern are the following issues, evident from Studio's account files:

- An established pattern of Miss J being unable to manage her existing credit limit – with excesses evident in more than half of the months since the account had been opened.*
- External data flagging that Miss J was at "risk of financial difficulties" from October 2019 to June 2020.*
- External data flagging a 'delinquent account' being registered on Miss J's credit file somewhere between October 2019 and March 2020.*

So based on the evidence available to me, I provisionally find that from August 2020, Studio was in a position to identify that any increase in lending was not affordable and sustainable for Miss J. It therefore follows that I plan to uphold this complaint from the point of that credit limit increase."

As Miss J has accepted my findings, and Studio hasn't responded, I have no reason to alter them as set out in my provisional decision. And so it follows that I uphold this complaint.

Putting things right

In order to put things right for Miss J, I direct Studio to do the following. In the event that Studio has sold Miss J's debt to a third party, it should buy it back, and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

- a) Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since 23 August 2020 on balances exceeding £350.
- b) Calculate what Miss J would have owed it if the credit limit had stayed at £350.
- c) Apply any and all repayments made by Miss J since 23 August 2020 to that adjusted balance identified in b).
- d) If that calculation means the adjusted balance would have been cleared, Studio must refund any remaining sums to Miss J with 8% simple interest*, calculated from the date of overpayment to the date of settlement.
- e) If after the adjustment an outstanding balance remains, Studio must try to arrange an affordable repayment plan with Miss J. Once the balance has been fully cleared, should there be adverse information about the account on Miss J's credit file, that should be removed.

*HM Revenue and Customs requires Studio to deduct tax from any award of interest. It must give Miss J a certificate showing how much tax has been taken off if she 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

For the reasons I've explained, I uphold this complaint and direct Frasers Group Financial Services Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 1 February 2024.

Siobhan McBride

Ombudsman