

The complaint

Mrs G complains that Studio Retail Limited lent to her irresponsibly.

What happened

In November 2017, Mrs G applied for an account with Studio which was agreed with a credit limit of £200. By June 2021, Studio had increased Mrs G's credit limit to £1,800. Mrs G says when she first applied for the account, she had a poor credit rating which Studio ought to have noticed. She says that if Studio had checked her credit report before increasing her limits, it would have seen she wasn't managing her finances well and was struggling. Mrs G complained that Studio had lent to her irresponsibly.

Studio looked into Mrs G's complaint. It referred to the terms and conditions of the account which say the credit limit may be changed based on internal data and publicly available information from the credit reference agencies. It was satisfied it had taken reasonable steps to ensure the increases were sustainable for her. Studio rejected Mrs G's complaint.

As she was unhappy with Studio's response, Mrs G referred her complaint to us. One of our investigators looked into it. She felt the first few credit limits – up to £1,000 which was agreed in July 2019 – were reasonable, but the increases to £1,500 in November 2019, £1,650 in January 2021, and £1,800 in June 2021 ought not to have been provided.

Mrs G accepted what our investigator said, but Studio didn't. It said up to July 2019, Mrs G only used a low proportion of the limit available and had a zero balance for several months. She'd not missed any repayments for a year leading up to the £1,500 limit increase and she'd only used £46 of the increase available to her. It considered therefore, Mrs G wasn't under financial pressure. As there was no agreement, the complaint has been passed to me for a final decision.

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 reached a different conclusion from that of our investigator. I issued a provisional decision saying:

"Following our investigator's involvement, there is now no dispute about the first few increases, so I'll focus my decision on the final three – from November 2019 onwards.

We've set out our approach to complaints about irresponsible and unaffordable lending on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.

Studio needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Mrs G irresponsibly. It's not about Studio assessing the likelihood of it being repaid, but it had to consider the impact of the repayments on her. I think there are key questions I need

to consider to decide what is fair and reasonable in the circumstances of this complaint:

- Did Studio carry out reasonable and proportionate checks to satisfy itself that Mrs G was in a position to sustainably repay the debt?
 - If not, what would reasonable and proportionate checks have shown at the time?
 - Did Studio make a fair lending decision?
- Did Studio act unfairly or unreasonably towards Mrs G in some other way?

There is no set list of checks it had to do, but it could take into account different things such as the amount of the limit, the monthly repayments and the borrower's circumstances.

Did Studio carry out reasonable and proportionate checks to satisfy itself that Mrs G was in a position to sustainably repay the loan?

Studio has relied on statistical evidence that it refers to as creditworthiness and affordability checks. The evidence it uses is drawn from its own account performance as well as information from credit reference agencies including the borrowers credit report, income and indebtedness. The information Studio uses is in line with what I'd generally consider to be reasonable and proportionate for a lending decision. So provided the information it's relied on is accurate, I think Studio had carried out reasonable and proportionate checks.

I've looked closely at the information Studio used for the increases in limits over £1,000 – so from November 2019 onwards. I've asked Mrs G to provide details of her income for the tax years in which the increases took place, as well as bank statements for the same period. The figures she's provided are broadly in line with the income used by Studio to calculate the limits it's given. That said, the income is slightly inflated in Studio's records – probably due to including benefits Mrs G receives for her son. Studio has said its lending policy would have allowed her limit to increase to £2,800 based on the information it had, but it tends to increase limits within the maximum it's prepared to offer. So I don't think the slightly lower income will have altered the decisions taken greatly.

The bank statements show Mrs G's income coming in monthly and her accounts were being run reasonably well. There was some use of her overdraft on one account, but this was at a low level and returned to credit within a few days.

Prior to my involvement, both parties to this complaint accepted our investigator's view that the limit increases prior to November 2019 were reasonable and affordable. As we know, Mrs G's limit later increased by a further £800. If she'd used the whole limit, that would have the effect of increasing her minimum payment by less than £50.

Each time it increased her limit, Studio gave Mrs G the opportunity to opt out of it if she didn't want it. And Mrs G's balance was generally comfortably below the limits afforded to her, so her usage doesn't lead me to conclude that she was struggling at the time of the increases or was 'hungry' for more credit.

All things considered, I'm satisfied that Studio carried out reasonable and proportionate checks. Even if I thought it hadn't, I don't think any further questions it could be expected to have asked, would have been likely to have led it to reach a different decision for the reasons I've set out above.

It follows that I think Studio reached its decisions to increase Mrs G's limit fairly.

Did Studio act unfairly or unreasonably towards Mrs G in some other way?

I've carefully read, listened to and thought about all the evidence provided by each party to this complaint. Having done so, I don't think Studio has acted unfairly or unreasonably towards Mrs G in some other way.

I realise what I've said will come as a disappointment to Mrs G, but, subject to any further evidence I receive, I don't intend to uphold her complaint. If Mrs G finds herself in financial difficulty, I'd encourage her to work with Studio to find an affordable repayment plan. I'd also take this opportunity to remind Studio of its obligation to treat customers in financial difficulty fairly."

Studio has accepted my provisional decision, and Mrs G says she has nothing further to add in response to it. That being so, I see no reason to depart from my provisional decision.

My final decision

For the reasons set out above, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 26 September 2023.

Richard Hale
Ombudsman