

The complaint

Miss S complains that Studio Retail Limited acted irresponsibly in providing her with a catalogue account, and in increasing its credit limit.

What happened

Miss S opened a catalogue shopping account with Studio Retail Limited (Studio) in July 2018. The initial credit limit was £50.

Studio increased the credit limit as follows:

- September 2018 - £200
- October 2018 - £300
- June 2020 - £400
- September 2020 - £500
- November 2020 - £1,000

In 2021 Miss S began to struggle to manage her repayments towards the account, as she lost her job due to Covid-19. Studio started reducing the credit limit in July 2021, initially to £980, and ultimately to £610 by July 2022.

Miss S, represented by a claims management company, complained that Studio had lent irresponsibly. In its final response letter, Studio said it undertook proportionate checks prior to offering the account, and prior to each limit increase, to ensure the credit limit offered was sustainable for her.

One of our Investigators considered the complaint and said she thought Studio had acted reasonably in agreeing to lend, and in each of the credit limit increases up to £500. But she thought that Studio should have conducted further checks before agreeing the final credit increase up to £1,000 – to verify Ms S's income.

Our Investigator's opinion referred to the credit limit increase from £500 to £1,000 as having occurred in July 2021. Having considered Miss S's bank statements in the three months prior, she saw signs of financial stress, so she thought that had Studio conducted further checks it should not have lent.

She therefore upheld the complaint in part. To resolve the complaint, she said that Studio should refund any interest and charges applied as a result of the increase in the credit limit from £500 to £1,000.

Miss S accepted our Investigator's opinion. Studio disagreed. In summary, it said that it had reviewed the data it had gathered at the time it offered the limit increase and it continued to think it had acted reasonably. The case therefore comes to me 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.

In October 2023, I issued a provisional decision which said:

"We've explained how we handle complaints about unaffordable and irresponsible lending on our website. I've used this approach to help me decide Miss S's complaint.

Studio had a duty to conduct proportionate checks to ensure the level of borrowing it offered Miss S was affordable for her to repay in a sustainable way. It needed to do this when it first offered Miss S the account, and each time it agreed an increase in the credit limit.

Studio has provided evidence regarding the credit checks it completed on each occasion, and what information it found. Studio also considered the data it held internally, such as how Miss S was managing the catalogue account.

Studio's checks on application showed that Miss S had one other open credit account. It found some historic missed payments, but that she'd kept her accounts up to date in the preceding six months. The credit checks also estimated Miss S's income to be around £16,000.

I think these checks were proportionate to the level of credit Studio initially offered, as the credit limit was low - £50, and for each increase up to £500. Those checks continued to show that Miss S was generally managing her existing credit commitments well, and that she hadn't taken further credit elsewhere. In terms of the Studio account, there was a period in early 2019 where Miss S struggled to make her payments on time – and during which Studio didn't increase the credit limit further. Otherwise Miss S usually managed to make more than the minimum payment, on time.

For each credit limit increase from £50 to £500, I don't think there was any information that should have caused Studio concern that the borrowing wouldn't be sustainably affordable for Miss S.

I agree with our Investigator that Studio should have conducted further checks before offering the credit limit increase up to £1,000. This was a significant increase, doubling the amount of credit Studio were making available to Miss S. Studio considered what it knew about Miss S's income from her application, the conduct of the account, and also information from external credit reference agencies including the amount of credit Miss S had elsewhere, what level her available credit limit was being used to, and whether her accounts were up to date.

Given the significant increase in the credit limit, and Miss S's income declared at the opening of the account I don't think the internal and external checks Studio conducted were proportionate. I think it should have done more, such as asking her more about her income and expenditure at the time.

As I've explained above, the credit limit increase to £1,000 took effect in November 2020. Not, as the Investigator said in their opinion, in July 2021. In July 2021, Studio decreased the credit limit from £1,000 to £980.

From the data Studio has provided, it offered Miss S the further credit limit increase on 19 October 2020, and she accepted the credit limit online on 29 October 2020. That means

that if Studio had conducted further checks it would have considered information from prior to 19 October 2020.

I've therefore considered the bank statements Miss S has provided in the three months leading up to that date. Unfortunately, the statement provided to us covering the period from 24 September – 23 October 2020 isn't legible and Miss S hasn't provided a further copy. But I've considered the prior bank statements. To be clear, I don't think Studio necessarily should have obtained bank statements from Miss S, but in the absence of it having conducted further checks at the time – such as asking her more about her income and expenditure, I have considered the information she's provided to our service now.

Having done so, I think that had Studio conducted further checks – as I think it should have done – it still would have thought that increasing the credit limit to £1,000 was sustainably affordable for Miss S.

I say that because Miss S's bank statements verify the information about Miss S's income and other credit commitments that Studio found by conducting credit checks. Her bank statements show her net income was around £1,600 per month, and her expenditure on essential spending and other credit commitments looked to be around £750. Sustainable monthly payments to the Studio account would have been around £50. So, I think that if Studio had asked further questions of Miss S about her income and expenditure, it would have thought the credit limit increase was sustainably affordable for her.

Our Investigator saw signs of financial stress, citing returned direct debit payments. However, our Investigator was looking at bank statements from 2021 – after Studio increased the credit limit to £1,000. I can't see signs of significant financial stress in the statements I've been able to review, and I don't think Studio could reasonably have known her circumstances were about to change due to being made redundant.

I'm sorry to hear Miss S lost her job. I think it's likely that was the cause of her difficulties making her repayments to the account, rather than because Studio lent irresponsibly. I think Studio acted responsibly in offering the credit limit increase from £500 to £1000, based on the information that would have been available to it at the time on 19 October 2020."

Studio accepted my provisional decision. Neither Miss S nor her representative responded. So, having reviewed the full file again, I see no reason to depart from my provisional findings.

My final decision

For the reasons I've explained, my final decision is that I don't uphold Miss S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 25 December 2023.

Frances Young
Ombudsman