

## **The complaint**

Ms R complains that Studio Retail Limited (“Studio”) provided her with a catalogue shopping account that she could not afford, and then increased the limit on it.

## **What happened**

In November 2019 Studio approved a catalogue shopping account with an initial limit of £250 for Ms R. It increased that limit seven times from January 2020 until August 2022 when it reached £1,200. However, it also decreased Ms R’s credit limit twice, having identified her inability to manage the account. The first decrease happened in February 2020, from £450 to £200. It is clear from the account notes that Ms R has had repeated difficulties making repayments throughout the life of the account, and its current status is unclear.

After Studio rejected her complaint, Ms R brought the case to our service. One of our investigators looked at the evidence and thought that Studio should never have lent to Ms R and so upheld the complaint. Studio didn’t accept that and asked that the case be passed to an Ombudsman for review.

## **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 uphold this complaint 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 Ms R 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, Ms R 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.

*Did Studio carry out proportionate checks?*

Studio carried out a high-level credit check, asked Ms R about her income, and made some statistical assumptions about disposable income before approving the lending. It says that these checks evidenced lots of positive elements to Ms R’s financial circumstances.

The investigator thought that Studio ought to have carried out more in-depth checks, noting

that it could see from the information it gathered that she was subject to an arrangement to pay with another lender at the time.

I agree, also bearing in mind the low income of around £1,000 per month declared by Ms R (but which Studio says its checks “...*could not accurately verify*...” and so it says it disregarded her income) meaning that I think there was a substantial risk around affordability for her. Therefore, Studio needed to look into her actual situation in rather more depth to proportionately assess her application.

*What would Studio have found had it done proportionate checks?*

When considering this second question, our service has had the benefit of Ms R’s full credit file to review. I accept that there was and is no requirement on a lender to obtain any particular type of information: they are permitted to source and rely on a range of evidence when assessing affordability, and so Studio could have opted to gather more information about Ms R’s financial position in a range of ways. However, it didn’t, and, in the absence of anything else provided, I’m happy to rely on the full credit file to demonstrate what Studio would most likely have discovered if it had completed proportionate checks.

The credit file shows that Ms R’s situation was considerably worse than it first appeared, and that the concerns flagged in Studio’s checks were borne out with further information. Ms R was, in fact, in an arrangement to pay on four separate accounts in November 2019. Not just one. And, although settled by November of that year, she had been in arrangements to pay on a further four accounts during 2019. (Indeed a pattern of repeated and entrenched difficulties making repayments is shown over many years, but for the purposes of this decision I have only focused on those closest in time to this lending decision.)

So, despite it offering a comparatively low initial credit limit, I cannot conclude that Studio fairly and reasonably concluded that this borrowing was affordable and sustainable for Ms R. (Whilst not directly relevant to my findings, it is also clear that Studio itself identified that only three months into this lending relationship, as shown by its action in reducing the credit limit on the account by more than 50%.)

It therefore follows that I don’t think Studio should ever have approved this account for Ms R, and so I uphold this complaint

### **Putting things right**

Whilst I’m not aware that it has, if Studio has sold Ms R’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.

In order to put things right for Ms R, I direct Studio to do the following:

- Rework the account to remove all interest and charges (including any BNPL interest) incurred on the account since opening.
- If after the rework the balance would have been cleared, Studio must refund any overpayments to Ms R with 8% simple interest per year\*, calculated from the date of overpayment to the date of settlement.
- If after the adjustment an outstanding balance remains, Studio must try to arrange an affordable repayment plan with Ms R. Once the balance has been fully cleared, whilst I’m not aware of any, should there be adverse information about the account on Ms

R's credit file, that should be removed.

\*HM Revenue and Customs requires Studio to deduct tax from any award of interest. It must give Ms R 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 Studio Retail Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 14 September 2023.

Siobhan McBride  
**Ombudsman**