

The complaint

Mrs H says Studio Retail Limited, trading as Studio (“Studio”), irresponsibly lent to her. She has requested that the interest and late payment charges she paid on three accounts be refunded.

What happened

Mrs H complained about three accounts. Our investigator has already explained why, under our time limit rules, we are unable to look into the part of the complaint about two of the accounts, opened in October 2000 and September 2001.

As for the third account, opened on 28 October 2015, our investigator has explained that under the six year part of our time limit rules we are only able to look events that took place on or after 12 May 2017. I will therefore only be considering the merits of the complaint and looking at the period from that date.

The account credit limit was increased at least ten times after it was first opened, going from an increase to £375 January 2016 up to £1,950 in November 2021. Also, between 10 May and 10 September 2019 the credit limit was reduced five times.

Since Studio doesn’t agree that it was fair for our investigator to uphold the account from May 2017, the complaint has been passed to me for an ombudsman’s 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.

We’ve set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website.

Studio needed to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs H could afford to repay what she was being lent in a sustainable manner. In making my decision I’ve therefore looked to see if there was a point when Studio should have realised that it shouldn’t have provided Mrs H with further credit.

Our investigator has set out in some detail why she thinks Studio shouldn’t have provided Mrs H with any further credit from 12 May 2017 onwards. A key point here is that Mrs H had already been in a debt management arrangement that had been put in place with the help of a debt advice charity.

Studio’s account data shows the account was in default from May 2017, having gone over the credit limit and incurred a default sum and a service charge. This indicates that Mrs H

was experiencing difficulties with the £650 credit limit increase that Studio had given her in August 2016. Studio was also already aware that Mrs H was at risk of having problems managing her credit since October 2016. The account remained in default until December 2017. And it continued to remain over the credit limit going forward, notwithstanding the limit reductions that took place between May and September 2019, until October 2019.

So I agree with our investigator that by May 2017 Studio ought to have been aware of the persistent issues that Mrs H was having with the account following the credit limit being increase to £650 in August 2016.

It follows that I think there was enough to have indicated to Studio that, even if she wasn't making further purchases on the account, Mrs H remained unable to bring down the credit she owed on the account in a sustainable way and was losing out financially as a result. In short, the pattern of Studio's lending history with Mrs H, based on the evidence and information provided by both Studio and Mrs H, strongly suggests that making further credit available to Mrs H created a real risk that her financial situation was likely to deteriorate.

Nor do I consider that Mrs H's ability to slowly claw back an improved financial status going forwards from then should affect that finding. In making my decision I have to look at the information that was available, or likely to have been available, to Studio at the time it was dealing with Mrs H, rather than relying on hindsight.

It follows that Studio should have realised that it shouldn't have increased Mrs H's credit when it did so in August 2016. Mrs H was still in difficulties with the account by May 2017 and I think she therefore lost out as a result and her indebtedness was unnecessarily prolonged due to Studio's actions. So Studio needs to put things right.

Putting things right – what Studio needs to do

- Rework Mrs H's account to ensure that from 12 May 2017 onwards all interest and charges are removed, including any buy now pay later interest, to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made Studio should contact Mrs H to arrange an affordable repayment plan. Once Mrs H has repaid the outstanding balance, it should remove any adverse information recorded on her credit file from 12 May 2017 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mrs H, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Studio should also remove any adverse information from Mrs H's credit file from 12 May 2017.

†HM Revenue & Customs requires Studio to take off tax from this interest. Studio must give Mrs H a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons set out, I'm partially upholding Mrs H's complaint for the account which

was first opened in October 2015. Studio Retail Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 9 April 2024.

Michael Goldberg

Ombudsman