DRN-4857729

## Complaint

Mr K has complained that Frasers Group Financial Services Limited (trading as "Studio") irresponsibly provided him with a catalogue shopping account and credit limit increases which were unaffordable for him.

## Background

This complaint is about a catalogue shopping account Studio initially provided to Mr K in early 2012. It's unclear what Mr K was initially given but what is known is that his credit limit was £330 in the leadup to the first credit limit being provided in May 2018. Mr K's credit limit was then increased on six occasions at the following times:

May 2018 - £580
August 2018 - £730
November 2019 - £855
August 2020 - £1,000.00
November 2020 - £1,900.00
November 2022 - £1,950.00 (the additional credit granted as a result of this increase was never utilised by Mr K).

One of our investigators looked at everything provided and felt that proportionate checks would not have shown Studio that it shouldn't have provided the credit limit increases to Mr K. So he didn't think that the complaint should be upheld.

Mr K disagreed with our investigator's conclusions and asked for an ombudsman's review of the complaint.

## My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I've decided not to uphold Mr K's complaint. I'll explain why in a little more detail.

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 Mr K could afford to repay what he was being lent in a sustainable manner.

These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But certain factors might point to the fact that Studio should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I've kept all of this in mind when deciding Mr K's complaint.

Mr K's account was opened in 2012 with a credit limit of £330 at the most. The catalogue shopping account Studio provided Mr K with was a revolving credit facility. This meant that Studio was required to understand whether Mr K could repay up to £330 within a reasonable period of time.

I understand that Studio may well have carried out a credit check before initially agreeing to provide this account. Studio has suggested that it doesn't have any information in relation to this increase given how long ago it took place.

In any event, it is important to note is that a credit limit of up to £330 will have required low monthly payments in order to clear the full amount that could be owed within a reasonable period of time. And I've not been provided with any clear evidence to show that Mr K circumstances were such that I could reasonably conclude that he didn't have the funds to make the very low monthly payment required.

As this is the case, I'm satisfied that it wasn't unreasonable for Studio to have agreed to this account. And I find that Studio didn't treat Mr K unfairly when it initially opened Mr K's account.

As I've explained in the background section of this decision, Studio increased Mr K's credit limit on six occasions until it eventually reached £1,950.00 in November 2022. Three of these six limit increases were modest in that the maximum amount Mr K could owe by the time of limit increase three was £855.

I appreciate that Mr K has provided evidence to show that there were a number of late and missed payments prior to the increases. But the information provided shows that the majority of these occurred sometime prior to May 2018. So I don't think that what's been referred to, in itself means that the May 2018 limit increase shouldn't have been provided. In any event, I do think that Studio took note of this by only increasing Mr K's credit limit by a low amount.

So bearing in mind the amount of the first three limit increases and the total amount he could owe, I wouldn't have expected Studio to have done too much more for the first three increases than it did when determining whether to initially provide the account. And, for much the same reasons – particularly as Mr K's use of the extra credit being granted wasn't unsustainable (as in he wasn't immediately maxing out the facility and his utilisation actually went on to reduce) - my findings in relation to these limit increases are the same as those for when the account was originally opened.

However, by the time of the fourth limit increase in August 2020, Mr K's credit limit was being increased to £1,300.00. So I would have expected Studio to have found out more about Mr K's income and expenditure (particularly about his regular living expenses) before providing this and any further credit limit increases.

As Studio has been unable to evidence having done this in this instance, I don't think that the checks it carried out before it provided the August 2020 limit increase were reasonable and proportionate.

Where a firm failed to carry out reasonable and proportionate checks before providing credit or increasing the amount available to a customer, I need to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown. So I've looked at the information Mr K has provided to get an idea of what Studio is likely to have learned had it carried out further enquiries into Mr K's living expenses.

In particular, I've looked at the current account statements has provided. In doing so, I accept the possibility that Mr K's actual circumstances may not be reflected in the information he may have provided.

However, the bank statements Mr K has provided show that his account was in receipt of regular funds. And when his actually discernible regular living costs are added to existing credit commitments and then deducted from what he received, Mr K does appear, at the time at least, to have had enough in funds left over to make the repayments required should he have needed to have repaid the extra credit he was granted within a reasonable period of time. Furthermore, Mr K was also using the additional credit granted in a sustainable way too.

In these circumstances, I don't think that Studio asking Mr K for more information on his living costs would have led it to conclude that the August 2020, November 2020 and November 2022 credit limit increases were unaffordable for him either.

Overall and having carefully considered everything, I've not been persuaded that proportionate checks would have shown that Studio that it shouldn't initially have provided this account, or any of the subsequent credit increases to Mr K.

In reaching this conclusion I've also considered whether the lending relationship between Studio and Mr K might have been unfair to Mr K under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Studio irresponsibly lent to Mr K or otherwise treated him unfairly. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here. So I'm not upholding this complaint.

I appreciate this will be very disappointing for Mr K. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

**My final decision**

For the reasons I've explained, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 12 August 2024.

Jeshen Narayanan
**Ombudsman**