

The complaint

Mr J complains that Frasers Group Financial Services Limited trading as Studio was irresponsible in its lending to him. He wants all interest and charges refunded along with statutory interest and the adverse information removed from his credit file.

Mr J is represented by a third party but for ease of reference I have referred to Mr J throughout this decision.

What happened

Mr J was provided with a Studio account in April 2020. He said that at the time of applying for the account he was experiencing financial difficulties and adequate checks weren't undertaken to ensure he could afford the credit. His credit limit was increased and he said that checks weren't carried out before this happened and he said he had missed several repayments on his account. Mr J has explained that the stress of the borrowing has negatively affected his mental health and his personal relationships.

Studio said that Mr J's application was auto accepted in April 2020 and an initial £150 credit limit applied. It said its lending decisions are not solely based on credit scores or financial history but also consider an individual's creditworthiness including income stability and repayment ability. The credit limit was increased on four occasions and Studio said that a careful analysis was undertaken before these limit increases were applied including assessing both internal and external data taking into account Mr J's payment behaviour. It noted that Mr J's payments were made without issue until July 2021. It said the account was defaulted in May 2022 and sold in July 2022.

Mr J referred his complaint to this service.

Our investigator noted that Mr J's credit check showed he had arrears on his account and that his disposable income was only £78, leaving little room for any unexpected costs. They didn't think that the account should have been opened or the credit limit increases applied and therefore upheld this complaint.

Studio didn't agree with our investigator's view. It said the fact Mr J was behind with payments at the time the account was opened was considered as part of his creditworthiness and this was the reason a low limit of £150 was granted. It noted the repayments on this amount would be £10 a month. It said the first missed payment was in July 2021, 15 months after the account was opened and Mr J regularly made his minimum repayments. IT said the small excesses occurred due to the charges being applied.

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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Before the account was opened, Studio gathered information about Mr J's income and carried out an affordability assessment and a credit check. Mr J's credit check showed that he was up to date on his accounts and didn't have any delinquent accounts, but it also recorded that he had been three months in arrears on an account in the previous six months. I think this should have raised concerns that he might be struggling to manage his money and therefore I think it was important to fully understand his financial circumstances to ensure that providing additional credit to him would be sustainably affordable.

Mr J's income was noted as £14,400 a year and the affordability check returned a disposable income of £78. I haven't seen the details of the affordability calculation and so I have relied on what has been disclosed. While I note the initial credit limit applied was relatively low, £150, given Mr J's calculated disposable income was only £78, I think this should have raised concerns that Mr J had limited funds available for any unexpected or additional costs.

The recent adverse credit information along with the limited disposable income I think meant that Studio should have been concerned that Mr J might not be able to sustainably repay any additional credit. I further note that the credit limit was increased a month later to £200 at which point Mr J exceeded his limit, which could suggest that he had become reliant on the credit. Taking all of this into account, I think on balance, the account shouldn't have been provided and therefore I am upholding this complaint.

Putting things right

As I don't think Studio ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mr J should pay back the amounts he has borrowed. Therefore, Studio should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Mr J along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Studio should also remove all adverse information regarding this account from Mr J's credit file.
- Or, if after the rework there is still an outstanding balance, Studio should arrange an affordable repayment plan with Mr J for the remaining amount. Once Mr J has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

As Studio has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Studio to deduct tax from any award of interest. It must give Mr J a certificate showing how much tax has been taken off if Mr J 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

My final decision is that I uphold this complaint. Frasers Group Financial Services Limited trading as Studio should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 1 April 2025.

Jane Archer
Ombudsman