

The complaint

Miss M complains that Vanquis Bank Limited shouldn't have approved her application for a credit card. She's also unhappy it irresponsibly increased her credit limit when it shouldn't have done so.

What happened

Miss M applied for a credit card with Vanquis in 2016. Based on the information she provided, Vanquis accepted her application and gave her a credit limit of £250. In January 2017 Miss M's credit limit was increased to £500. And in June 2017 Vanquis further increased Miss M's credit limit to £1500. The third and final increase to Miss M's credit limit took effect in February 2018 when Vanquis increased this to £2250.

Miss M didn't reject the credit limit increases Vanquis offered her. And she went on to use them. Prior to the third credit limit increase Miss M managed her account well and made payments on time that exceeded the minimum due. However, following the final credit limit increase Miss M made a number of payments late and her account exceeded her credit limit on at least seven occasions.

Miss M complained to Vanquis that it had irresponsibly lent to her. She said it shouldn't have approved her application for a credit card or increased her credit limit. She said the credit limit increases led to financial difficulties and caused her to be stuck in a cycle of debt, which detrimentally affected her health and wellbeing.

After Vanquis investigated it rejected Miss M's complaint. It said it hadn't done anything wrong when it approved her credit card application. And it explained that it carried out appropriate affordability checks prior to increasing her credit limit for the first time. It said all subsequent increases followed the same procedure. So, it was satisfied Miss M could afford the borrowing and it said, each time it had offered a credit limit increase, she'd been given the option to decline the increase.

Being dissatisfied with Vanquis' response to her complaint Miss M referred it to our service. Our investigator looked into this and, while they empathised with Miss M, they weren't persuaded that Vanquis had irresponsibly lent to her or done anything wrong. Overall they thought it had acted fairly and reasonably. But Miss M disagreed with our investigator's view and asked for her complaint to be referred to an ombudsman.

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.

The first part of Miss M's complaint is about Vanquis' decision to approve her credit card application, which she says was irresponsible. So, I'll focus on that issue first.

Miss M said Vanquis should have declined her application for credit because she had a default payment and short term payday loan recorded on her credit file when she opened her

account. But this wouldn't necessarily mean Vanquis' decision to approve Miss M's credit card application was wrong. I say this because Vanquis offers cards to people who want to improve their credit rating because they have poor or absent credit history. So it wouldn't be unusual for a Vanquis customer to have debts pre-existing elsewhere or for it to decline lending just for this reason.

Vanquis was required to lend responsibly. Before agreeing to do so, it should have assessed the affordability of credit to ensure that Miss M could afford to repay what she was borrowing. It's up to Vanquis which checks it carries out but they need to be reasonable and proportionate to, for example, the amount being borrowed, the cost of repayment and a customer's lending history. We can't say a lender should've done any particular check and there isn't a set list of checks it needed to do.

Before approving Miss M's credit card application, Vanquis said it made a credit assessment – using its own internal risk strategies and information supplied by Miss M and credit reference agencies. It said that, after doing so, it was satisfied Miss M met its acceptance criteria. Given this, and the relatively small amount of credit Vanquis offered her, I think it was reasonable for it to have accepted Miss M's initial application with a relatively small credit limit.

Before it changes a customer's credit limit Vanquis said it reviews how they're using their card and managing other credit commitments. It says it makes risk based assessments to ensure its lending is appropriate to a customer's financial circumstances. It says these checks were undertaken before it increased Miss M's limit on each occasion in 2017 and 2018. And it stated Miss M met the criteria to qualify for an increase on each occasion. It's clear that Miss M feels the credit limit increases were irresponsible. But, based on the evidence I've seen, I think Vanquis undertook affordability checks that were proportionate to what was being lent.

Having carefully considered the statements of Miss M's account I can see she made monthly payments to her account on time, which regularly exceeded the minimum amount due. At around the time of the second credit limit increased offer Miss M made two payments to her account a day late. However, based on what I can see this was due to Miss M's salary crediting her account the day after her payment to Vanquis was due.

I've reviewed the annual statement Miss M was sent in August 2017. This showed she was paying a small amount of interest based on her purchase transactions when compared to the payments she had made to her account. I note there were only two default charges when Miss M made payments to her account late. So, overall I'm not persuaded there were any affordability concerns here and I don't think Vanquis acted irresponsibly in increasing Miss M's credit limit in 2017.

Prior to the final credit limit increase I can see that Miss M was largely managing her account well. I say this because she made her payments on time. Again, these payments exceeded the minimum amount required. So, I don't think Vanquis acted unreasonably in increasing Miss M's credit limit in February 2018.

Vanquis said before it made changes to Miss M's credit limit it wrote to her to invite her to opt out of the increases. I've seen evidence that persuades me that Vanquis communicated with Miss M prior to each credit limit increase. I can see that the correspondence Vanquis sent her explained it was going to increase her limit and when the change would take effect. Vanquis advised Miss M to think about whether the proposed increases were affordable to her and what she should do if she didn't want the increase it had offered. I'm satisfied Miss M had opportunity to opt out had she wanted to. I understand she didn't reject any increases Vanquis offered in 2017 or 2018. It's clear to me she wanted those increases.

I understand Miss M didn't notify Vanquis she was experiencing financial difficulties until December 2018 when she told it she had sought help from a debt charity. And I can see that, in February 2019, a debt management plan was applied to her account, which took her minimum monthly payments down to around £20.

I've thought about whether Vanquis ought to have identified that Miss M was suffering financial hardship before she informed it of her difficulties. However, based on how Miss M was operating her account, I don't think it would be fair for me to say that Vanquis had opportunities to recognise that she was experiencing financial difficulties prior to when her final credit limit increase took effect.

Immediately after this final increase, however, I can see that the way in which Miss M managed her account began to change. She missed a payment and incurred over limit charges in March, April, May and September. It's clear from November 2018 onwards that Miss M was struggling financially. And in December 2018 and January 2019 she failed to make payments to her account, which was out of character for her.

I can see that payments resumed in February – albeit at a reduced rate in accordance with Miss M's debt management plan. But, overall, I think her deviation from her usual account after the final credit limit increase should have led Vanquis to recognise that she may have been struggling to manage her account due to financial difficulties.

While it may have helped Miss M if Vanquis had contacted her prior to December 2018 I don't have sufficient evidence to persuade me that the outcome would have been different. I say this because Vanquis wouldn't have had to waive interest and charges. I can see the debt management plan was applied to Miss M's account soon after she made it aware of her financial difficulties, which is what I would expect. I'm satisfied, overall, that Vanquis is treating Miss M positively and sympathetically as it's required to do. So I'm not going to ask it to do anymore here.

I realise Miss M will be disappointed with this decision. But it brings to an end what we, in trying to resolve her dispute with Vanquis informally, can do for her. I'm sorry we can't help Miss M any further with this.

My final decision

My decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 2 June 2020.

Julie Robertson
Ombudsman