

The complaint

Mr M complains about irresponsible lending made to him by Vanquis Bank Limited.

What happened

Mr M had a credit card account with Vanquis. He said Vanquis increased his credit limit a number of times. He didn't think those increases were affordable for him. He said Vanquis should've noticed he was at his limit and making minimum payments. He said he had payday loans and mortgage arrears at the time, and these increases just pushed him further into debt. He wanted Vanquis to pay back the interest and late payment fees he'd been charged.

Vanquis said it carried out checks each time it had offered a credit limit increase to Mr M, and it thought these were affordable for him. It noted that the letter it sends when it offers a customer a credit limit increase reminds the customer to stay within their current credit limit. If they don't keep within the current credit limit until they have confirmation that the credit limit has been increased, or if they fail to make a monthly payment, then Vanquis won't increase the limit.

Vanquis noted that Mr M had made cash withdrawals, but said this is only one risk factor to consider when thinking about whether it can raise a credit limit. It didn't think the way Mr M used his card overall was a cause for concern. Vanquis noted that Mr M regularly made repayments in excess of the minimum. And it saw no increase in external lending, which might have suggested Mr M was borrowing to pay off his card. Vanquis didn't think it had been irresponsible in offering these lending increases to Mr M.

Mr M contacted us again, to say that he thought guidance on making sure customers can afford credit had been breached in his case. He said that after he first took out the card, he got additional late payment markers and defaults, and had taken out a lot of other credit. Vanquis had told us that Mr M didn't have additional lending overall, and only one additional default since the card was taken out.

Our investigator said that Mr M had four credit limit increases within the relevant period. Those were in April 2014, September 2014, May 2015 and November 2016. An earlier limit increase offer in February 2014, hadn't been granted as Mr M didn't keep his account within its existing limits before the offer was applied.

Our investigator looked closely at each of those limit increases, but he didn't think Vanquis had done anything wrong. He also considered Mr M's credit report, and that showed that Mr M had opened most of his current credit facilities a long time after the last limit increase from Vanquis. He thought Mr M's financial difficulties happened well after his last limit increase. Our investigator said he wouldn't suggest Vanquis took any further action.

Mr M didn't agree. He said he had many payday loans and cash advances, and was frequently over his limit. He said he'd finally taken a secured loan to clear his card, otherwise

he would've taken years to clear the balance. He wanted his case to be reviewed, so it was passed to me for a final decision.

My provisional decision

I issued a provisional decision on this complaint and explained why I did didn't propose to uphold it. This is what I said then:

Our investigator said that he was considering credit limit increases made from 15 July 2013. He said that meant there were four credit limit increases within scope. I think there's an earlier limit increase, in November 2013, which is also in scope. I note that Vanquis itself also considered that limit increase when it replied to Mr M's complaint.

So the first credit limit increase I can consider as part of this complaint was offered in September 2013, and made in November 2013. Mr M missed a payment in July, and his account was overlimit in August. But overall, I've not been able to decide that Vanquis should've known then that it would be irresponsible to offer Mr M a limit increase.

Aside from being slightly over his credit limit in March 2014, MR M's card seems to have been managed relatively well until a further limit increase in June 2014. Vanquis told us his overall debt position had slightly improved at that time. So I don't think it was irresponsible for Vanquis to offer him this credit limit increase either.

Mr M was offered another limit increase relatively quickly, in September 2014. This took his limit up to £3,000. Again, aside from having been slightly over his credit limit in August 2014, his card seems to have been managed relatively well until then. And again, Vanquis told us his overall debt position had slightly improved.

Mr M told us that he started to take out payday loans in early 2015. Many of those no longer show on his credit record, but I expect they would've been visible at the time. And, worryingly, Mr M went straight over his new £3,000 credit limit in the month it was applied to his account. He remained over this limit each month, until May 2015. In May 2015, Mr M was offered a further credit limit increase, to £3,500.

Instances of exceeding a card credit limit are a potential risk factor for credit card lenders when they are considering offering an unsolicited credit limit increase. Guidance for credit card providers states that card limit increases are not to be offered in circumstances where the balance currently exceeds the limit. It may not break the letter of these rules to wait until immediately after someone's had an extended period of being over their credit limit, and then offer an unsolicited limit as soon as the account is back within limits. But I think it clearly breaches the spirit of these rules. I don't think it's reasonable to make an unsolicited offer of a credit card limit increase in these circumstances.

I think that the management of Mr M's card in the months immediately preceding the May 2015 offer were a cause for concern. I don't think this limit increase was clearly affordable for Mr M, and I don't think it should've been granted.

This limit increase was applied in July 2015.

Mr M was offered a further limit increase in November 2016. He was within his credit limit that month. But he'd been over his limit for each month for the preceding twelve months. For the same reasons as I've set out above, I don't think it was reasonable for Vanquis to make this offer.

Mr M told us he borrowed money to pay off this card in 2017.

I don't think Vanquis made a mistake by lending Mr M up to £3,000. But I think it did make a mistake by lending him more than this. I don't think he should've been offered credit card limit increases in July and November 2015. So I think Vanquis should refund to Mr M all the interest which was applied to lending over the amount of £3,000 from the July 2015 increase in his credit limit. And I think it should also refund any charges it applied to his card from this period on. Vanquis should also pay interest, calculated at 8% simple per annum, on this refund.

I understand that this debt has now been partially settled, so I think this refund should be paid to Mr M.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Mr M accepted my decision. Vanquis said it had nothing further to add.

What I've decided – and why

I've reconsidered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint. I haven't changed my mind.

My final decision

My final decision is that Vanquis Bank Limited must refund to Mr M all the interest which was applied to lending over the amount of £3,000 from the July 2015 increase in Mr M's credit limit. And it must refund any charges it applied to Mr M's card from this period on. Vanquis Bank Limited should also pay interest, calculated at 8% simple per annum, on this refund.

HM Revenue and Customs requires Vanquis Bank Limited to take off tax from this interest. Vanquis Bank Limited must give Mr M a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 21 July 2020.

Esther Absalom-Gough
Ombudsman