

The complaint

Miss B is complaining that Vanquis Bank Limited lent to her irresponsibly when they gave her a credit card.

What happened

Miss B applied to Vanquis for a credit card. On her application she said her personal annual income was £13,500 and her household income was nearly £40,000. Vanquis called Miss B before approving her application and confirmed these figures with her. At the time of the application, Miss B's credit file showed a total value of defaults of £3,900, with the latest being seven months prior to her application. And it showed active non-mortgage lending of £200.

Vanquis offered Miss B a credit card with a limit of £500 and her account was opened in August 2017.

One year later, after several missed payments against the card, and after trying to call Miss B numerous times, Vanquis sent Miss B a default notice. In September 2018, Miss B told Vanquis she was in financial difficulties and had asked a debt charity to help her. Vanquis accepted a payment arrangement and stopped adding interest to Miss B's account. But in 2019 Miss B stopped making the agreed payments and in September 2019 Vanquis defaulted the account and passed it to a debt collection agency.

Miss B says Vanquis didn't make any checks on her income, her household income, or the affordability of the credit card. She says she had defaults and missed payments on her credit file at the time of her application. Because Vanquis gave her a credit card, she says, she's had to borrow more to pay off her debts and is suffering from financial difficulties and increased anxiety.

In response to Miss B's complaint, Vanquis said they'd used a credit scoring process to assess Miss B's credit stability and ability to pay. They said Vanquis is a "second-chance" lender which means they lend to people who might otherwise find it difficult to get credit. Vanquis said this meant that negative markers on a credit file won't always lead to an application being declined. They said they were satisfied appropriate checks were made, proportionate to the amount of credit offered, because the necessary monthly payments wouldn't have been expected to go over about £23.

One of our investigators looked into Miss B's complaint. His view was that Vanquis had acted fairly. He thought that it wasn't unreasonable for Vanquis to have decided that the credit card debt was sustainable for Miss B, based on the information they considered at the time. Our investigator pointed out that lenders rely on the information included in an application – and said Miss B hadn't been able to provide any information to him about the income she declared on her application in August 2017.

Our investigator also said he thought Vanquis had treated Miss B fairly once her financial difficulties came to light – he could see they'd tried to contact her on numerous occasions before eventually passing her account to a debt collection agency.

Miss B didn't agree with our investigator's view and asked for an ombudsman to review her complaint – so it's come to me.

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.

Although I appreciate Miss B will be disappointed with my decision, I'm not upholding her complaint. While I agree with Miss B that Vanquis could perhaps have done more checks before lending to Miss B, I don't think it would have made any difference to their decision to give her a credit card. I'll explain why.

The lending decision

The Financial Conduct Authority's (FCA's) consumer credit sourcebook (CONC) sets out the rules about the sort of things lenders need to consider before they lend money to an individual like Miss B. As these rules were updated in November 2018, I've looked at what CONC said before then, at the time Miss B's credit card was approved.

In essence, CONC 5 required a lender to make proportionate checks to ensure that a customer would be able to meet repayments in a sustainable way, without incurring financial difficulties. This means checking that the customer would be able to make the repayments while meeting other financial commitments, and without having to borrow to make the repayments.

CONC 5.2.1 states that a lender must make an assessment based on information from the customer and from a credit reference agency. I can see that Vanquis did this – they looked at the information Miss B provided on her application and called her to confirm the information. And they checked a report from a credit reference agency.

CONC 5.2.3 says that the extent of the assessment should be proportionate and might depend on certain factors like the type and amount of credit, the customer's credit history, existing and future financial commitments and any future changes in circumstances which could reasonably be expected to have a negative financial impact on the customer.

Vanquis told us Miss B's £500 credit limit was considered low – and would mean monthly payments of around £23. And her other active debt was minimal, at £200. So they thought a detailed assessment wouldn't be proportionate. And, when looking at Miss B's credit history, they saw that she hadn't had any negative markers for seven months – so they thought it was reasonable to offer her credit.

In addition, CONC 5.3.1(4)(b) says "*it is not generally sufficient for a firm to rely solely for its assessment of the customer's income and expenditure, on a statement of those matters made by the customer*". Vanquis didn't check any other sources to verify Miss B's income.

So I think it's fair to say Vanquis could have done more to check whether the credit card was affordable for Miss B. I then have to consider what would have happened if they'd done additional checks.

If Vanquis had tried to check Miss B's stated income, it's likely they'd have found it was much lower than she'd said. When I looked at her bank statements I could only see income of around £80 per month. Miss B said she couldn't remember what her income had been at the time and said it would have been minimal.

However, Vanquis told us it's likely they'd have been willing to lend to Miss B based on the household income even if they knew she had very limited personal income. And I can't say that would have been unreasonable. After all, Miss B told Vanquis on the phone that she had full access to the household income. Against an annual income of nearly £40,000, I'm satisfied it would have been reasonable for Vanquis to have approved a £500 credit card for Miss B.

Unfortunately, Miss B and her partner separated some months after Miss B's credit card was approved. And it seems that this is the main reason Miss B's had financial difficulties. I'm satisfied Vanquis aren't responsible for this – although CONC 5.3.1 requires a lender to

consider reasonably expected future changes in income and expenditure, I can't see that they had any reason to anticipate the end of Miss B's relationship with her partner.

Dealing with financial difficulties

Miss B first missed a payment in May 2018. But in June 2018 she paid what she needed to in order to get the account back on track.

Then in July 2018, Miss B missed another payment. I can see Vanquis started trying to contact Miss B shortly after they sent her July statement. Vanquis made numerous attempts to call Miss B between 20 July and 3 September. During that time, they also wrote to Miss B on several occasions, suggesting Miss B call them to discuss an acceptable payment arrangement. They also suggested Miss B might like to contact a debt charity.

On 10 September 2018, Vanquis issued a notice of default to Miss B, warning her that her account would be defaulted if they didn't hear from her. I can see Vanquis agreed to a payment arrangement in September 2018. This meant Miss B needed to pay £5 per month and interest charges were stopped on her account. Based on everything I've seen, I'm satisfied Vanquis treated Miss B fairly during this period – they made every effort to speak with Miss B and eventually stopped interest charges and agreed a payment arrangement which seemed affordable.

In April 2019 I can see Vanquis wrote to Miss B to tell her she'd missed a payment under the arrangement. And the same happened in July and August 2019, after which Vanquis issued Miss B with a second notice of default. Vanquis's records show they tried to call Miss B many times during April and May, and again during July and August.

Unfortunately, it seems Miss B wasn't able to make the payment required by the default notice and so Vanquis defaulted her account and passed it to a debt collection agency. I can't say this was unfair – from everything I've seen Vanquis made every effort to work with Miss B before passing her account on.

My final decision

As I've explained above, I'm not upholding Miss B's complaint. Although I think there may have been some shortcomings in the checks Vanquis Bank Limited carried out before offering credit to Miss B, I don't think this affected their lending decision. And I'm satisfied Vanquis Bank Limited treated Miss B fairly once she started to experience financial difficulties.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 24 March 2021.

Clare King
Ombudsman