

The complaint

Mrs J complains that Clydesdale Bank Plc, trading as Virgin Money, irresponsibly approved her credit card account application.

What happened

Mrs J says she applied for a Virgin Money credit card account in 2017 and that application was approved with a credit limit of £10,000. She says she was surprised at the amount of the credit limit and later got into financial difficulties repaying Virgin Money the balance she owed. Mrs J says the lending was irresponsible and unaffordable and says her income was £9,360 but on Virgin Money's records it is recorded as £93,600.

Virgin Money doesn't accept making a mistake and says the application was correctly assessed using a variety of factors. It says it reviewed the account in 2019 and decided not to renew the account card. And Mrs J must have entered the wrong income details.

Mrs J brought her complaint to us and our investigator upheld the complaint. The investigator thought Mrs J had recorded the total household income as £37,500 which ought to have alerted Virgin Money to a problem as that was less than Mrs J's declared income. The investigator thought reasonable and proportionate checks can't have been carried out and when they were, Virgin Money cancelled the account card in 2019. The investigator recommended Virgin Money put Mrs J back in the position she would have been in if the account hadn't been approved and interest paid on any excess payments as well as adverse information removed from her credit file. She also recommended Virgin Money pay £175 compensation.

Virgin Money doesn't accept that view and says it's a common mistake for customers to incorrectly record total household income and says Mrs J made appropriate payments for some time after the application was approved.

Mrs J's accepts the investigator's view.

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.

Having done so I have come to the overall view that I uphold this complaint. But I accept Mrs J ought to have made sure the income details were correct and I also think she could have questioned the size of the credit limit with Virgin Money when the application was approved. But that doesn't change my overall view that the lending was inappropriate here for the reasons I will explain.

Lenders should carry out reasonable and proportionate checks on any application for credit or borrowing. Those checks will of course vary depending on the size of any borrowing or the type of borrowing. I can see that Virgin Money did carry out some checks on Mrs J's application but there can be no doubt that it didn't verify Mrs J's income or question why the

stated household income was less than Mrs J's income. I think it ought to have carried out further checks and if it had, then the mistakes would have come to light. I'm satisfied that Virgin Money didn't carry out reasonable and proportionate checks in these circumstances.

I can see in 2019 Virgin Money looked at Mrs J's credit card account again and decided that the account wasn't affordable. I'm satisfied those checks were reasonable and proportionate and correctly concluded that Mrs J's income, which at that stage was correctly recorded, didn't justify not only such a high credit limit, but the account itself. I don't see how in those circumstances Virgin Money can justify how the 2017 checks were reasonable and proportionate when in 2019 it concluded the lending was unaffordable.

I agree with the investigator that Virgin Money will have to look carefully at Mrs J's account and put her back in the position she would have been in if the lending hadn't been approved in 2017. I find Mrs J had the benefit of the lending and so it would be unfair for that to be refunded but I think the interest and any charges will need to be calculated and taken off the balance she owes.

I accept Mrs J was caused some inconvenience and distress and think the recommended award of £175 fair and reasonable.

I don't think it matters that Mrs J was able to make the required repayments from 2017 as the key point here is that Virgin Money itself decided in 2019 the lending was unaffordable. I have made clear that I think it should have known that in 2017 if those appropriate checks were carried out.

Putting things right

Virgin Money should put Mrs J back in the position she would have been in if the credit card account hadn't been approved. It should calculate and deduct interest and charges from the amount owed and if Mrs J has overpaid then it should refund that money and add 8% simple interest. I also intend to order Virgin Money to remove any adverse information from her credit file and order it to agree a repayment plan if necessary.

My final decision

My final decision is that I uphold this complaint and order Clydesdale Bank Plc trading as Virgin Money to pay Mrs J £175 compensation and remove any adverse information from her credit file. I also order that Mrs J be put back in the position she would have been in if the lending hadn't taken place and all interest and charges be deducted from the amount she owes and if that results in an overpayment, that should be refunded to Mrs J with 8% simple interest paid to her from date of payment to date of settlement. If Mrs J still owes any money, then a suitable interest free repayment plan must be agreed with her.

Mrs J should be given a certificate of taxation paid to Her Majesty's Revenue and Customs in respect of the simple interest if paid to her.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs J to accept or reject my decision before 1 June 2021.

David Singh
Ombudsman