The complaint

Mr C complains that he shouldn't have been given a credit card by Clydesdale Bank Plc trading as Virgin Money (Virgin).

What happened

Mr C applied online for a credit card from Virgin in June 2017. It was approved with a limit of £7,100. In December 2020, the debt of £1,169 was sold to a debt collection agency.

Mr C complained he shouldn't have been given the credit card. Virgin didn't do sufficient checks. His annual income was £26,000 – Virgin said it was £42,000, but that included his partner's income. His net salary was £1,500 per month, with outgoings of more than that. He had other debts of £15,000 at the time and was in financial difficulty. He could never afford to repay the borrowing. He had to borrow from other lenders to pay Virgin. Eventually, in 2019, he had to sell his house to pay off his debts.

Virgin said the online application was approved. Mr C's application showed there was a household income of £42,000. They'd looked at a combination of factors when approving the credit card, including looking at other debts, household income and information from credit reference agencies.

Mr C brought his complaint to us. Our investigator said she thought the issue of the card was OK. Virgin had carried out automated checks of Mr C's online application – and Mr C passed these. But things went wrong subsequently – when Mr C got into financial difficulty with Virgin. That should then have caused Virgin to look at his circumstances closer. She upheld Mr C's complaint and said that late payment fees and over limit charges should be refunded, and the debt bought back from the debt collection agency.

Virgin disagreed and asked that Mr C's complaint be looked at by an ombudsman.

I reached a provisional decision where I said:

I take a different view to our investigator – she thought the issue of the card was OK, but upheld Mr C's complaint because of what happened after that. But – Mr C's complaint isn't about how Virgin treated him after the issue of the card – his complaint is that he shouldn't have been given the card – with a limit of £7,100 - in the first place. So, my provisional decision deals with that. And I don't think Virgin should have given Mr C the card. I will explain why.

All lenders have an obligation to lend money responsibly. We have to check whether Virgin acted in line within the Financial Conduct's (FCA) rules on creditworthiness assessment as set out in its handbook, (CONC) section 5.2. These say that a firm must undertake a reasonable assessment of creditworthiness, considering both the risk to it of the customer not making the repayments, as well as the risk to the customer of not being able to make repayments. We look at:

- Whether the lender completed reasonable and proportionate checks to satisfy itself that the borrower would be able to repay any credit in a sustainable way?

- If reasonable and proportionate checks were completed, did the lender make a fair lending decision made bearing in mind the information gathered and what the lender knew about the borrower's circumstances?

He was given a limit of £7,100 in June 2017 on a balance transfer arrangement. There were balance transfers made of £5,863 in June 2017, and £1,123 in February 2018. This took his borrowing up to the limit of £7,100 where – essentially – the debt stayed until April 2019 when it was repaid – and the limit was then reduced to £1,000 by Virgin. In January 2020, it was paid off again, but the debt then increased back to the limit of £1,000. The debt went into arrears and was sold to a debt collection agency in December 2020.

I've looked at what Virgin told us. They said Mr C's application was auto-approved, and household income was £42,000. We asked Virgin for their credit analysis carried out when the card and limit was approved. This showed the Mr C stated his annual income was £28,000 and monthly rent/mortgage was £600. Household income is shown as £42,000 – but the card was in Mr C's name, with no secondary cardholder (Mr C told us his partner's income was included). Other criteria used were employment status, time at address, and similar. Virgin haven't told us if there were any other checks done.

It appears that Mr C was a new customer to Virgin, previously unknown to them. But they were giving him a substantial limit of £7,100. I can see there was no checks made on his income and expenditure, or other cards held, or other debts. For such a large initial limit – I would have thought it was reasonable to ask those questions of Mr C. Or ensure that suitable credit searches were done to check those facts.

The application was for balance transfers – two are listed on the application form totalling £5,863. These were transferred by Mr C. But a higher limit of £7,100 was given which enabled a further balance transfer of £1,123 in February 2018. It's not clear why a higher limit was given beyond the amount of the first balance transfers applied for. Virgin said to us that it was reasonable to assume that the balance transfers would enable Mr C to reduce his overall debts – but there's no evidence to say they knew what those other debts were – or, more importantly, whether Virgin followed through to ensure they were indeed repaid.

So – I don't think Virgin carried out reasonable or proportionate checks in giving Mr C a limit of £7,100. So, they should put Mr C back in the position he was in before the lending was approved. It's not fair to ask Virgin to write off the debt, as Mr C has had the use of the money. But – my provisional decision is to uphold Mr C's complaint – subject to any comments that either Mr C or Virgin may have. And - I think Virgin should:

- Refund all interest and charges made on the account since the card was issued, to date. To the extent that Mr C has paid these amounts though his repayments, 8% per annum simple interest should also be added.

- If there is any residual borrowing, the debt should be taken back from the debt collection agency and a mutually agreeable repayment plan agreed with Mr C.

- Remove any adverse entries at credit reference agencies.

<u>Responses to the provisional decision:</u>

<u>Mr M</u> didn't have any comments, but we looked at his credit file.

This showed that he had several other credit agreements in place at the time of his application to Virgin – June 2017. Most were paid up to date with no late payments. It showed two agreements had defaulted, but the dates of default aren't clear. There is another for £6700 – which we assume is the amount transferred to the Virgin credit card. It's paid up to date.

Virgin said (in summary):

- Mr M passed their credit checks.
- The credit searches they carried out showed other debts of £6,250 – and this reduced to £600 in July 2017 – this showed the transfer of debt to Virgin. These are less that the debts of £15,000 that Mr M says he had at the time.
- A mortgage of £130,000 is shown in the credit searches.
- They allowed a higher limit than the amount of balance transfers to allow some flexibility for further spending.
- Other debts stayed at around £6,400 until June 2018 – and after that, Mr M's credit score went down.

So – I now need to make a final decision.

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.

Virgin have shown that on the face of it, some of Mr M's problems seemed to appear after they issued their card. I must consider that with the basic question – did Virgin act responsibly in giving Mr M the credit card with a limit of £7,100. And – on balance, I remain of the view that they should've made further inquiries before doing so.

Mr M was a new customer to Virgin, with no track record with them at all. And – a limit of £7,100 in those circumstances was high. And – he was transferring debts from another card. The application to Virgin showed a mortgage of £131,000 – and when looked at against his income (£28,000) – this was high. Virgin were also relying on other household income (total £42,000 per annum). So - I think they should've asked more questions about his circumstances, such as seeing an income and expenditure analysis (including the effect of mortgage payments and other debts); and more information about the second source of income, and whether it was sustainable or committed to other debt repayments.

So – I am upholding this complaint and I'm asking Virgin to do what I set out in my provisional decision.

Putting things right

Because Virgin shouldn't have issued the credit card in the first place, Mr M has had to pay interest and fees that he wouldn't otherwise have paid. And his credit file has been marked as a result of the sale of the debt to a debt collection agency. So – what I'm asking Virgin to do will put him back in the position he would've been if Virgin hadn't issued the card.

My final decision

I uphold this complaint. Clydesdale Bank Plc trading as Virgin Money must:

- Refund all interest and charges made on the account since the card was issued, to date. If a credit balance arises after these refunds, 8% per annum simple interest should also be added from the time it arose to date.

- If a credit balance arises, Virgin must pay this to Mr M to an account he should nominate.

- If there is any residual borrowing, the debt should be taken back from the debt collection agency and a mutually agreeable repayment plan agreed with Mr C.

- Remove any adverse entries at credit reference agencies.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 2 August 2021.

Martin Lord
Ombudsman