

The complaint

Mr M complains that Creation Financial Services Limited (“Creation”) acted irresponsibly in giving him a credit card and then increasing his limit.

What happened

Mr M was approved for a credit card by Creation with a limit of £1600 in July 2018.

He applied for a credit limit increase two weeks later so that he could do a balance transfer. His limit was increased to £4200, which he used to transfer a balance of £4000.

Mr M got into financial difficulty, and contacted Creation about this in October 2019. He had found that he’d accumulated debts of £43,000. He complained to Creation that it hadn’t carried out sufficient checks when offering him a credit card and increasing his limit.

Creation didn’t uphold his complaint, saying it had carried out appropriate checks, and noting that Mr M used his limit to carry out a balance transfer.

Mr M brought his case to our service. Our investigator didn’t have full details of Creation’s calculations, but based on Mr M’s payment history, and other information provided by Creation, he didn’t think the approval of the application was irresponsible. He also reviewed the increase and didn’t think this was irresponsible either. He didn’t uphold the complaint.

Mr M wasn’t happy with this, and so the case came to me to decide. As I reached a different view from the investigator, I issued a provisional decision which is set out below.

“I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

When deciding to offer or increase credit, a lender has to carry out a creditworthiness assessment, including a proportionate affordability assessment to check that the borrower can repay the amount borrowed in a sustainable way. This means being able to repay over a reasonable period without undue difficulty, while being able to meet other commitments, and without having to borrow further. Rules and guidance on this have been laid down by the current and previous regulators, the Financial Conduct Authority and the Office of Fair Trading. However, there is no set way to carry out the assessment.

Creation has explained that when Mr M applied for his card, it’s credit scoring process included a review of the file received from credit reference agencies. This showed Mr M’s repayment history, details of his financial commitments and would have shown any adverse information. Creation said it correctly followed its internal process in making its lending decision. However, in my view, the information that Creation would’ve seen should’ve alerted it to the risk that Mr M’s debt was becoming unsustainable, and that as a result, it would not be responsible to offer further credit.

Although Creation was offering a low initial limit, Mr M’s net monthly income was also low at £1,150, and his credit card debt relatively high, at more than £20,000 on four other credit cards. It would’ve been apparent from his credit file that although Mr M had been meeting his

contractual obligations, he was generally making low repayments, and his credit card debt had significantly increased over the previous two years with balances moving to and fro between credit cards rather than reducing overall, indicating that he may be struggling to repay his existing debt and was at risk of financial difficulty.

Creation has explained how it calculated whether Mr M could afford new credit. I can see it took account of financial commitments, and Mr M's income, and his partner's income. In relation to financial commitments, Creation has explained that it took account of a proportion of Mr M's mortgage payment having assessed the proportion Mr M's sole income bore to his partner's income, being 36%, in order to arrive at a disposable income figure of £280.

Creation say that half of this was deducted as an estimate of living expenses - £140 per month, leaving £140 as disposable income that could be used to repay the additional credit.

The basis of the fraction used here is not clear, with no apparent relation to Mr M's actual or reasonably estimated expenditure. I also note that Mr M has a family, which would impact the level of his living expenses, but I can't see that this estimate took account of that.

Accordingly, I can't see that Creation made a reasonable estimate of Mr M's expenditure, and therefore his disposable income.

As I can't see that Creation made a reasonable estimate of Mr M's disposable income, I have also reviewed Mr and Mrs M's joint account statements to assess the level of Mr M's disposable income. I am not suggesting that Creation needed to look at Mr M's bank statements, but I have to use the information available to me. Overall, having regard to the regular income and outgoings, the account shows little or no disposable income. I could see that there were occasional payments into the account from other sources, and that these were sometimes followed by larger card repayments, but from what I could see, Mr M was not able to make larger repayments without these additional credits. I can also see that the account had started to dip into overdraft in the months before Mr M applied for the card with Creation.

In the light of all of this, I don't think it was responsible of Creation to give Mr M an initial limit of £1600, or to increase it shortly afterwards so that he could do a balance transfer, and in my view this contributed to Mr M's financial difficulties.

To put this right, I intend to require Creation to refund all interest and charges in relation to his credit card.

As Mr M's account is now with a debt purchaser, I intend to require Creation to ensure that the refund is credited to Mr M's account with the purchaser.

I also intend to require Creation to remove all adverse information it recorded with credit reference agencies about Mr M.

As Mr M has had the use of the money he borrowed, I don't intend to require Creation to have the remaining balance written off.

My provisional decision

I intend to uphold this complaint.

I intend to require Creation Financial Services Limited to refund all interest and charges in relation to his credit card and to credit these to the account held in respect of this card by the debt purchaser.

I intend to require Creation Financial Services Limited to remove all adverse information with credit reference agencies that relates to this borrowing.

As Mr M's financial situation has been very worrying for him, I intend to require Creation Financial Services Limited to pay him £100 by way of compensation for this.

Creation asked for further detail of what I had said I expected they would've been able to see from Mr M's credit file. I provided details of how Mr M's balances had increased over the two years before he applied for his credit card with Creation together with additional detail about his repayments and balance transfers.

Creation provided full details of its creditworthiness assessment and offered to refund all interest and charges on the account and remove all adverse information about Mr M's credit card in the light of the additional information provided by this service.

Mr M accepted my findings but sought confirmation that all fees and interest charges would be refunded. I have covered this below.

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.

I'll start by confirming that my provisional decision provided for all interest and charges to be refunded. For the avoidance of doubt, the reference to charges includes any charge described as a fee, which, as confirmed separately to Creation, includes balance transfer fees.

I reviewed the information Creation provided and note that it says that the information provided by this service wasn't available to it at the time. However, as I said in my provisional decision, I think Mr M's credit file would have contained information that indicated that he may have been struggling financially. Overall, while I note what Creation said, my view hasn't changed, and my final decision is in line with my provisional decision.

Putting things right

To put things right, I require Creation to refund all interest and charges applied to Mr M's credit card account. As Creation has sold the account to a debt purchaser, I require Creation to ensure that the refund is applied to reduce the balance on that account.

As Mr M has had the use of the credit granted, I don't require Creation to write off the remaining balance.

I require Creation to remove all adverse information about Mr M's credit card account from his records with credit reference agencies

I am also requiring Creation to pay £100 directly to Mr M in respect of the worry caused by his financial situation.

My final decision

My final decision is that I uphold this complaint.

I require Creation Financial Services Limited to refund all interest and charges applied to Mr

M's credit card account. As the account has been sold to a debt purchaser, I require Creation Financial Services Limited to ensure that the refund is applied to reduce the balance on that account.

As Mr M has had the use of the credit granted, I don't require Creation Financial Services Limited to write off the remaining balance.

I require Creation Financial Services Limited to remove all adverse information about Mr M's credit card account from his records with credit reference agencies

I require Creation Financial Services Limited to pay £100 directly to Mr M in respect of the worry caused by his financial situation .

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 23 August 2021.

Rosemary Campbell
Ombudsman