

The complaint

Mr B is unhappy that Barclays Bank UK PLC, trading as Barclaycard, provided him with credit which he feels was unaffordable for him.

What happened

Mr B had a credit card account with Barclaycard. In June 2017 his credit limit was increased from £2,600 to £3,900. And in April 2018 his credit limit was increased again this time by £1,500 to £5,400. Mr B said Barclaycard hadn't carried out sufficient checks as to the affordability of the lending. And if they had they'd have seen he was struggling financially as he was gambling. He complained to Barclaycard.

Barclaycard said they'd checked into Mr B's financial position before implementing the credit limit increases. And they hadn't seen anything from those checks that gave them cause to consider that Mr B might not be able to afford the credit limit increases at those times. And that Mr B could have asked them to reduce his credit limit if he thought it was too high.

Mr B didn't agree and referred his complaint to us.

Our investigator found that Mr B's account had met the criteria for persistent debt and Barclaycard had suspended the account. He said Barclaycard had acted fairly and reasonably in their dealings with Mr B about his persistent debt. And for the credit limit increase in 2017 he said that the checks carried out by Barclaycard were reasonable and proportionate, he didn't think they'd lent irresponsibly. But for the credit limit increase in April 2018 our investigator said Barclaycard should have done more. He said Barclaycard and acted irresponsibly in increasing Mr B's credit limit in 2018. He said to put things right they should:

- refund all interest incurred after the credit limit was increased in April 2018; and
- remove any adverse data from the credit report from April 2018 onwards (if applicable).

Barclaycard didn't agree, they said the checks they'd considered were reasonable and proportionate. And Mr B's difficulties were due to other borrowing he'd taken out in 2019, and not the credit limit increase they'd agreed to in 2018. They asked for an ombudsman to decide.

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'm upholding this complaint. I'll explain why.

Both Mr B and Barclaycard has accepted our investigators view that Barclaycard had acted reasonably in their dealings with Mr B about his persistent debt. And that Barclaycard hadn't acted irresponsibly in increasing Mr B's credit limit in 2017. So, in reaching my decision I

need to determine whether Barclaycard acted irresponsibly in increasing Mr B's credit limit further in April 2018.

It's for a business to decide whether it will offer credit to a customer, and if so, how much and on what terms. What this service would expect would be, that before increasing the amount of credit available to a customer a business would undertake reasonable and proportionate checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

I've considered the relevant rules, guidance and good industry practice when someone complains about irresponsible and/or unaffordable lending. There are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did Barclaycard complete reasonable and proportionate checks to satisfy them that Mr B would be able to repay the credit in a sustainable way?
 - a. if so, did Barclaycard make a fair lending decision?
 - b. if not, would reasonable and proportionate checks have shown that Mr B could sustainably repay the borrowing?
2. Did Barclaycard act unfairly or unreasonably in some other way?

Regulations in place at the time Barclaycard lent to Mr B required them to carry out a reasonable assessment of whether he could afford to repay the credit in a sustainable manner. This is sometimes referred to as an "affordability assessment" or "affordability check".

The affordability checks should be "borrower-focused", meaning Barclaycard need to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr B. In other words, it wasn't enough for Barclaycard to think only about the likelihood that they would get their money back without considering the impact of repayment on Mr B himself.

There's no set list for what reasonable and proportionate checks are. What constitutes a proportionate affordability check will generally depend on several factors such as the specific circumstances of the borrower, their financial history, current situation and whether there are any indications of vulnerability or financial difficulty. Consideration should also be given to the amount, type and cost of credit being applied for.

Section 5.2A.20 of the Financial Conduct Authority's (FCA) Consumer Credit Sourcebook (CONC) provides examples of the factors that need to be considered and the circumstances, under which, they should be applied.

Barclaycard said before each of the credit limit increases, they looked at how Mr B had been managing his account up to that point. They also obtained information from a credit reference agency to gain a better understanding of Mr B's wider financial position. And, they've said there wasn't anything from these checks that caused them to suspect that Mr B might not be able to afford the further credit being offered to him. I can see they didn't directly contact Mr B to gain an understanding of his monthly income and essential expenditure at the times that the credit limit increases were offered.

So I've looked at the information Barclaycard considered to see if there were any factors that could have caused concern.

Barclaycard said the data used to assess the application didn't provide the details of Mr B's income, but that it had been validated, not from his current account but from another creditor. Prior to the increase to £5,400, the data showed Mr B had external credit commitments of around £2,000 and had recently taken out a loan, the data shows he had an outstanding loan balance over £13,500. Barclaycard said they wouldn't increase a credit card limit unless a "G" (green) value was provided under the model of affordability that they used. And that this was the value showing at the time they increased Mr B's credit limit. But I can see that the status applied across the analysis carried out by the credit reference agency around the time of the credit limit increase only showed "G" for a couple of instances and the remainder was showing either "A" (amber) or "R" (red).

As I outlined above it isn't enough just to consider whether Mr B would be likely to pay back the additional credit, but the impact this would have on him. I think given the recent increase in Mr B's indebtedness, as he'd only just taken out a high value loan of £13,000 before the credit card limit was increased. I think it would have been appropriate to ask for further customer information at that point. I say this as it would have, on balance, given Barclaycard a clearer understanding of Mr B's financial position. Barclaycard simply relying on third party credit reference data I don't think was enough here.

Our investigator has obtained Mr B's bank statements, and I've looked at the three months prior to the increased credit limit. The statement for December 2017 to January 2018, showed a change in Mr B's spending as there are a high number of gambling transactions being made. I can see in his statement for February 2018 to March 2018 a loan of £13,000 being paid in which appears to have been for the purchase of a car. But there were fewer gambling transactions - two. But the bank statement for March to April 2018 shows Mr B continuously using his overdraft. So, I think the bank statements show that Mr B's indebtedness had increased, and his financial situation was deteriorating. And this is reinforced by Mr B's credit card account meeting the criteria for persistent debt by 2019.

Barclaycard said Mr B's difficulties were due to further borrowing he took out after they'd increased his credit limit. But I don't think that was the case. From what I can see Mr B's financial situation changed just prior to the credit limit being increased. And I don't think Barclaycard did enough to determine Mr B's financial situation as to the sustainability of the increased borrowing. So, I don't think Barclaycard acted responsibly in increasing Mr B's credit limit in April 2018.

Where credit has been provided when it shouldn't have been, it would be fair and reasonable for the lender to refund any interest and charges paid by the borrower (if there were any). And the borrower would be expected to repay any remaining amount of the funds they were given. So, I'd expect Mr B to pay back the funds he was lent – when he used his credit card – but not the interest or any other charges it might have applied. I'd also expect Barclaycard to remove any adverse information it has reported to the credit reference agencies about this account.

Putting things right

To put things right for Mr B, Barclaycard should :

- rework the account to ensure that no interest is charged on the balance of the account to reflect the fact that no credit should have been provided. All late payment and over limit fees should also be removed;
- if an outstanding balance remains on Mr B's account once all adjustments have been made Barclaycard should contact Mr B to arrange a suitable repayment plan for this;

- if the effect of all adjustments results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr B along with 8% simple interest† on the overpayments from the date they were made until the date of settlement; and
- remove any adverse information from Mr B's credit file from April 2018 when the credit limit was increased.

†HM Revenue & Customs requires Barclaycard to take off tax from this interest. Barclaycard must give Mr B a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons set out above, I uphold Mr B's complaint. I ask Barclays Bank UK PLC trading as Barclaycard to put things right for Mr B by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 December 2021.

Anne Scarr
Ombudsman