

The complaint

Mr L complains that Bank of Scotland plc trading as Halifax irresponsibly approved a credit card account application which was unaffordable.

What happened

Mr L says he opened the Halifax credit card account in August 2017 and says he was in financial difficulties at the time which ought to have been obvious to Halifax. He says he was in debt at the time and had taken out payday lending prior to opening the account. Mr L says the account shouldn't have been approved and says he was overdrawn on his Halifax bank account. He says the lending was unaffordable and would like interest and charges refunded.

Halifax says the account was opened in August 2017 and it carried out appropriate checks. It says Mr L told it he earned £26,000 a year and calculated the affordability of the account. Halifax says there was no evidence Mr L couldn't afford the account or repay any borrowing. It says it wouldn't check bank account statements and says it's up to Mr L to provide accurate information.

Mr L brought his complaint to us and our investigator upheld the complaint. The investigator thought there were signs of unaffordability such as Mr L's payday lending application in the days leading up to the credit card account application. And that Mr L's outgoings appeared significantly higher than Halifax's calculations. The investigator didn't think Mr L could have afforded the repayments and recommended interest and charges be refunded.

Halifax doesn't accept that view and maintains there was no adverse information on Mr L's credit file and that some of the spending was on non-essential items. It says it was not reasonable to check account statements.

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.

Lenders and credit providers should carry out reasonable and proportionate checks on any lending application. Those checks will of course vary depending on the type and amount of any lending. And a lender must ensure that any lending can be appropriately repaid.

I have looked carefully at the information that Mr L provided Halifax and can see that on the face of it he received an income of in excess of £25,000 from employment. I can also see that he didn't have any adverse information on his credit file such as any defaults or County Court Judgements. But I don't think that information provided a balanced picture of Mr L's finances. As Mr L also took out short term loans included a loan within days of the Halifax credit card application. And that his Halifax bank account statements showed his account was overdrawn in the three months before this application.

I'm satisfied that an overdraft is intended as a short-term method of borrowing, but Mr L's account was largely overdrawn for months before the lending. I appreciate Halifax says it doesn't check customers bank accounts. But I'm satisfied that information would have been shown on Mr L's credit file, which was checked.

So, I'm satisfied that there ought to have been sufficient warning signs visible to Halifax when it considered Mr L's application that ought reasonably have led to further checks being carried out. I think on balance those further checks would have shown that Mr L was in financial difficulties and that his income was not enough to clear his overdraft each month. I also think those checks would have shown Mr L's outgoings were higher than Halifax calculated. I'm satisfied that Halifax ought to have carried out further checks on this application which ought to have led to it to conclude the lending was unaffordable. And that Mr L would have difficulties repaying the borrowing, which is exactly what did then take place.

Putting things right

Mr L had the benefit of the money and should repay what he borrowed but Halifax should refund interest and charges which should be deducted from the outstanding balance. If there is a refund due to Mr L after that calculation, then Halifax should pay 8% simple interest per year on that amount. And if a refund is due to Mr L then any adverse information reported to the Credit Reference Agencies should be removed from Mr L's credit file. Finally, if Halifax deducts any taxation due to any refund then Mr L should be provided with the usual certificate of taxation.

My final decision

My final decision is that I uphold this complaint and order Bank of Scotland plc trading as Halifax to refund interest and charges applied to Mr L's account from its opening and follow the above direction.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 1 November 2022.

David Singh
Ombudsman