

The complaint

Miss O, who is represented by a third party, complains that Vanquis Bank Limited ("Vanquis") irresponsibly granted her a credit card she couldn't afford to repay.

What happened

In September 2018 Miss O entered into an agreement with Vanquis to have access to credit by way of a credit card account. The account had an opening credit limit of £1,000 which was increased to £2,500 in May 2019.

Miss O says that Vanquis didn't complete adequate affordability checks when it opened her account. She says she was on benefits, wasn't working and her income was not as high as Vanquis said it was.

Although Vanquis initially said that the account was affordable, it recently agreed to partially uphold Miss O's complaint, from the date of the credit limit increase. So it would be refunding all interest and charges from May 2019. But Miss O has rejected that offer.

Our adjudicator agreed that Miss O's complaint ought to be partially upheld on the same basis as Vanquis's offer. Whilst our adjudicator thought Vanquis didn't act unfairly or unreasonably by approving the opening of the account, it shouldn't have given her the credit limit increase, given that from the information it had it could be seen that her regular committed expenditure was higher than her income.

As Miss O didn't agree with our adjudicator's finding the complaint has been passed to me for 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.

Vanquis will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Before granting the account, Vanquis looked into Miss O's financial situation. Based on the information Miss O provided during the application process, Vanquis calculated she had an overall annual income of around £46,580. Vanquis was also aware that at that point Miss O could also rely on additional weekly income from her partner. It also found that Miss O was generally managing her other credit accounts well. Vanquis set an opening credit limit based on this information.

I think these checks showed it was likely that the credit card account was affordable for Miss O, having calculated that Miss O would have sufficient disposable income to manage her Vanquis card alongside her existing financial commitments.

But whilst it appears that Vanquis carried out proportionate steps at the time, I still need to consider whether it made a fair lending decision at the outset and for each of the credit limit increases.

Looking at the credit limit increase, I agree with our adjudicator that it would have been proportionate for Vanquis to have taken steps to find out more about any changes to Miss O's income and expenditure. I say this taking into account that at this point Miss O's total monthly income was around £1,600, but with committed monthly expenditure of around £1,800, that likely wouldn't leave her enough to cover her living costs and committed expenditure. Also, I've seen that Miss O had missed a payment – or made a late payment – a month before she was given the increase. I therefore agree that Vanquis ought to have been aware that Miss O may not have been in a position at this point to manage her account without getting into financial difficulty and so the credit limit increase wasn't affordable.

It follows that I don't think Vanquis should have increased Miss O's credit limit beyond the first increase of £2,500.

Putting things right – what Vanquis needs to do

- Rework Miss O's account to ensure that from 2 May 2019 onwards interest is only charged on balances up to the total credit limit of £1,000, (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made Vanquis should contact Miss O to arrange an affordable repayment plan for the account. Once Miss O has repaid the outstanding balance, it should remove any adverse information recorded on Miss O's credit file from 9 February 2016 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss O, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Vanquis should also remove any adverse information from Miss O's credit file from 2 May 2019.†

†HM Revenue & Customs requires Vanquis to take off tax from this interest. Vanquis must give Miss O a certificate showing how much tax it's taken off if she asks for one.

I am aware that Miss O is currently in an Insolvency Voluntary Arrangement ("IVA") and that her insolvency practitioner has expressed an interest in the compensation I have directed. Vanquis has also been informed of this. I therefore remind Miss O of her obligation to comply with the terms of the IVA.

My final decision

I'm partially upholding Miss O's complaint. Vanquis Bank Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss O to accept or reject my decision before 5 August 2022.

Michael Goldberg

Ombudsman