

The complaint

Mr C complains that Clydesdale Bank Plc trading as Virgin Money have irresponsibly lent to him.

What happened

Mr C took out a loan with Virgin Money for £11,500 over 84 months. He says at the time he took out the loan, he had a series of personal loans and payday loans at the time, so he shouldn't have been accepted for the Virgin Money loan as he couldn't afford the repayments and he had a gambling addiction and mental health issues. He said Virgin Money did not ask him for his bank statements to evidence the affordability for the loan. Mr C complained to Virgin Money.

Virgin Money did not uphold his complaint. They said that in regards to Mr C not being asked to provide his bank statements, if any information on his application did not match, then they would have asked him to provide proof, such as proof of income in order to proceed, but there appeared to be no errors with the information on the application.

Virgin Money confirmed they had measures in place to assess customer's affordability based on the day of the loan application and they said Mr C was credit scored and accepted in line with their scoring criteria. They said that part of the application asked him if he had reason to think there would be a change in his circumstances which may affect his ability to repay the loan, but Mr C answered "no" to this question.

Mr C brought his complaint to our service. Our investigator did not uphold his complaint. He said we have to determine whether the business knew, or ought reasonably to have known that the lending was likely to have been unsustainable or unaffordable for Mr C. And to do that, we often have to decide whether the business carried out reasonable and proportionate checks before lending to Mr C.

Our investigator said that Virgin Money's checks didn't appear to show any indication that the lending would be unaffordable. In Mr C's application to Virgin Money, he told them he was earning £24,000 annually and had £500 outgoings and no other credit repayments.

Our investigator also said that Mr C's credit file showed he had no other lending and he wasn't in arrears on any of his accounts, so based on what he was earning and the repayments on the Virgin Money loan, this meant that Mr C would be paying roughly 10% of his income towards the loan, therefore Virgin Money's checks were reasonable and proportionate before they lent to him and there wouldn't be a requirement for them to have asked for any further information. He said that due to this, Virgin Money would not have been able to identify that Mr C had a gambling addiction, without Mr C highlighting this to them.

Mr C asked for an Ombudsman to review his complaint. He made a number of points. In summary, he said that during the period of the loan application, he already had a number of existing loans, had a gambling addiction, which was clear from his bank records he provided to our service. He said based on his outgoings, the loan was not affordable for him and that

mortgage companies require applicants to provide bank statements, but he was not asked for bank statements for the Virgin Money loan.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This 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.

Mr C has made a number of points to this service and I've considered and read everything he's said and sent us. But, in line with this service's role as a quick and informal body I'll be focusing on the crux of his complaint in deciding what's fair and reasonable here.

Before agreeing to approve the credit to Mr C, Virgin Money needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. I've listed below what checks Virgin Money have done and whether I'm persuaded these checks were proportionate.

Virgin Money said they looked at the information that Mr C provided on his application and the information from the Credit Reference Agencies (CRA's). They saw that Mr C said he had £1,600 net monthly income and he had outgoings totalling £500, but he said he wasn't paying anything towards credit agreements. Virgin Money will have been aware that Mr C was not in arrears on any of his accounts, so they agreed to lend Mr C £11,500, over 84 months with repayments of £166.63 a month, after Mr C had passed a credit score check.

I've considered what Mr C has said about the loans he had took out around the time period he applied for the personal loan with Virgin Money. I've looked at his credit file and I can see that he took out a loan with a third party bank on 17 April 2021 (which was settled on the same day Mr C was approved for the Virgin Money loan). But as a credit file would take time to update, then I'm not persuaded that this information would have been available to Virgin Money at the time he applied for the loan. Mr C has a number of entries on his credit file in June 2021, but these were recorded after Mr C was approved for the Virgin Money loan, so I can't say that Virgin Money should have been reasonably aware that Mr C would be likely to take out several forms of lending after he received the loan from Virgin Money.

I've considered what Mr C has said about the expenditure his bank account showed in April, May and June 2021. But the majority of May 2021 and all of June 2021 was after the loan had been approved. Based on the information that Mr C has provided on his application form, I'm not persuaded that it would have been proportionate for Virgin Money to have asked for his bank statements, but I am persuaded that it would have been proportionate for Virgin to ask for further information from Mr C and I'll explain why.

Mr C's application shows he had £500 a month outgoings. The only outgoing recorded on his application was showing as a mortgage payment. While it would not be unusual for somebody to split bills with their partner and have different outgoings being paid by each person, I'm persuaded that as part of a proportionate check, that Virgin Money could have asked Mr C to ensure that the total of his outgoings was £500.

So I've considered what would have likely happened if Virgin Money contacted Mr C to discuss his outgoings. I'm not persuaded that Mr C would have told Virgin Money about his recent borrowings, as he hadn't included the outgoings for any loans on his application. And he would have settled the loan in April which Virgin would have been able to see on his

credit file at that point, so if they asked him how much he paid for that particular loan, then I'm satisfied that Mr C would have told them he wasn't paying anything towards it as he had settled the loan.

I'm then persuaded that Mr B would have told them that he had £600 worth of bills. I say this as I can see from Mr C's bank statements that on 15th of the month he transfers £600 to his joint account with the reference of "bills". From Mr C's bank statements, he didn't appear to have any other regular commitments which left his account in the three months leading to his loan being approved, so I think it's unlikely he would have told Virgin he had more outgoings than this.

So as it would appear that Mr C had £600 a month that he paid for his regular outgoings, this would mean he would have £1,000 per month available to service the Virgin Money loan repayment of £166.63. Even if Mr C had other regular outgoings he needed to service, this would still leave £1,600 (income) - £600 ("bills" showing on his bank statements) - £166.63 (Virgin Money loan repayment) = £833.37 a month disposable income. This could be higher based on Mr C's bank statements showing that he earned £1,944.70, £2,233.40 and £2,261.39 in the three months before his application was approved – all significantly higher than what Mr C said he earned on his application. So while I'm persuaded that Virgin Money should have made a further check on his outgoings, I'm not persuaded this would have stopped the loan from being approved and I'm not persuaded that Mr C's gambling addiction would have been disclosed to Virgin Money.

As Mr C had answered "no" on his application form to the question "is your expenditure likely to increase in the future", then I'm satisfied that when Virgin Money would have likely established his bills were £600 a month, then they would not need to ask for bank statements to evidence this. Especially with no recent borrowing showing on his credit file (due to this not updating showing the third party loan yet, albeit this was settled on the same day he was accepted for the Virgin Money loan), no arrears and no adverse credit information.

So it would not be reasonable for Virgin Money to be aware that Mr C had a gambling problem at the time of the loan approval. They would not be aware he intended to use the funds to gamble with when he had recorded the purpose of the loan as home improvements. And I'm not persuaded that Mr C would have disclosed this to them if they asked him about his outgoings as part of a proportionate check. As Mr C had a mortgage at the time of the approval, home improvements would seem a reasonable use for the money and I'm persuaded it would be fair for Virgin Money to rely on the customer's documented reason for the loan.

Mr C has said that a mortgage provider would need to see evidence of his bank statements and he didn't see why Virgin Money did not ask to see his bank statements given the amount of the loan which was approved. But these are two distinctly different types of products and have two different criteria set by the regulator, the Financial Conduct Authority. So I can't say Virgin Money should have done the same thing a mortgage provider would have done if he applied for a personal loan.

I'm glad that Mr C has found help regarding his gambling addiction, but it would not be fair for me to say that Virgin Money irresponsibly lent to him, when there was no indications from the information Mr C gave them, or would be likely to give them if Virgin had contacted him to ask about his committed outgoings, or from the information from the CRA's, that the loan would not be sustainable or affordable for him. So it follows I don't intend to ask Virgin Money to do anything further."

I invited both parties to let me have any further submissions before I reached a final decision. Virgin Money accepted the provisional decision. Mr C did not respond to the provisional 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.

As neither party have provided me with any further information to consider, then my final decision and reasoning remains the same as in my provisional decision.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 19 September 2022.

Gregory Sloanes
Ombudsman