

The complaint

Miss L complains Capital One (Europe) plc increased her credit card limits to unaffordable levels.

What happened

Miss L opened a Capital One credit card in April 2018 with a £1,000 credit limit. A new card was opened in August 2018, with a £1,750 limit. A further credit card was opened in January 2019 with a £3,250 limit. The previous cards were closed when the new ones were opened.

In December 2020 a new credit card was opened with a £500 limit. This card was opened with the previous card still active and with a debt owed.

Miss L entered into a payment plan with Capital One in January 2021.

Miss L complained to Capital One in April 2021 to say she thought she shouldn't have been given any of the credit cards as it should have been clear she couldn't afford more credit. Miss L said the extra debt meant she had to borrow money from family to get by.

Miss L also said Capital One had previously applied a default to a credit card she'd held, so it was on notice she couldn't afford more lending. Miss L asked Capital One to refund all the interest and charges it had applied and amend her credit file.

Capital One responded to say it had checked Miss L's credit file and income and thought the credit cards it had agreed were affordable.

Unhappy with this response, Miss L brought her complaint to this service. An adjudicator looked into things and thought Miss L's complaint should be upheld.

The adjudicator thought Capital One should have carried out more checks in January 2019. At this point Miss L's borrowing outside of Capital One had increased, so it would have been reasonable for it to check her income and expenditure.

The adjudicator got Miss L's bank statements, and these showed she was overdrawn and 25% of her salary was going towards debt repayments. The adjudicator thought Capital One should refund any interest and charges applied to the last two credit cards.

Capital One responded to say Miss L's debt to income ratio was less than 50%, which meant it felt the lending was affordable. Capital One said it's not unusual for people to have lots of credit and Miss L had maintained payments to her debts.

Capital One asked for an ombudsman to decide things.

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.

When Miss L applied for the first credit card, in April 2018, Capital One carried out checks and saw Miss L owed around £4,000 across other lending. Capital One took Miss L's income and decided the £1,000 limit was affordable.

I think Capital One carried out enough checks and I think this credit card limit probably was affordable to Miss L. Miss L used the credit card to transfer a balance from another debt, and didn't pay any interest on the card.

When the second card was agreed, Capital One again carried out checks and Miss L's overall debt had reduced to around £3,200. Capital One again confirmed Miss L's income, which had gone up slightly, and thought the new £1,750 limit was affordable.

Again, I think Capital One carried out sufficient checks and the credit card limit probably was affordable. Again, Miss L used the card to transfer a balance from elsewhere and again paid no interest on the card.

But when the credit card in January 2019 was applied for, Capital One's checks showed Miss L's debt outside Capital One had increased to £6,000. This is a significant increase in the amount of money Miss L owed.

And Capital One was increasing Miss L's borrowing limit by £1,500, which I think is a significant increase. Although Capital One carried out the same checks as before, I think it should have carried out more.

The Consumer Credit Sourcebook, CONC, says in 5.2A.4R Capital One must undertake a reasonable assessment of creditworthiness, Miss L's ability to repay. I think, in January 2019 it would have been reasonable to get bank statements from Miss L.

The adjudicator got statements from Miss L, and in September, October and November 2018 Miss L's average income was £1,004 per month. Miss L had fixed expenditure of around £480, leaving £520 to pay for other things, like food, clothing and leisure.

Miss L was also paying at least £200 per month to another creditor, reducing her free income to around £320. And a further £31 was taken in overdraft interest.

CONC also says, in 5.2A.27R Capital One must assume Miss L uses the full limit immediately and repays it, in equal instalments, over a reasonable time.

If Miss L had maintained payments of £114 per month to her Capital One credit card, the likely minimum payment, the card would have been paid off in just under 5 years' time – this seems a reasonable time.

This further reduces Miss L's free income to £175 per month. Miss L has children, I don't think this amount is enough to live on for a month. And Miss L owed nearly £2,000 on an overdraft on her account, which wasn't being repaid.

I think Capital One should have got bank statements from Miss L. If it had, I think it should have decided the increase in credit limit in January 2019 was unaffordable for Miss L. So, I don't think Capital One should have agreed the increase in credit limit in January 2019.

Because I think it should have been clear, in January 2019, Miss L was struggling with debt,

I don't think Capital One should have agreed the second card, in December 2020 either.

When Miss L entered the payment plan, in January 2021, Capital One continued to charge interest until July 2021. But Capital One later refunded February to June 2021's interest, but it doesn't appear it refunded interest for July 2021. This appears to be an oversight.

I think Capital One has responded well to Miss L's financial difficulties. It seems to have permanently suspended interest on her biggest debt and allowed Miss L to repay an affordable amount each month.

Putting things right

Because I don't think Capital One should have given Miss L further lending after January 2019, I think Capital One should refund Miss L any interest and charges she's paid on balances above £1,750, on the third credit card, and all the interest and charges on the additional card she opened.

The adjudicator thought Capital One should remove any adverse information on Miss L's credit file. I think it's reasonable Capital One records Miss L as in a payment plan, from January 2021 for the third credit card, but removes any adverse information for the additional card she opened.

My final decision

My final decision is I uphold this complaint and Capital One must:

- refund any interest and charges, on balances over £1,750, on her third credit card, opened January 2019
- refund all the interest charged after February 2021, on her third credit card, opened January 2019
- refund all interest and charges on the additional credit card, opened December 2020
- update Miss L's credit file to show she's in an arrangement to pay from January 2021, on her third credit card, opened January 2019
- remove any adverse information on the additional credit card, opened December 2020

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 19 January 2023.

Chris Russ
Ombudsman