

## **The complaint**

Miss S has complained that Bank of Scotland plc, trading as Halifax ("Halifax") irresponsibly lent to her.

## **What happened**

Miss S opened a credit card account with Halifax in June 2015. The initial credit limit was £1,000. In September 2016 it was increased to £2,000. Thereafter, her credit limit was increased a further four times until in April 2020 it was £4,500.

Miss S says that Halifax acted irresponsibly by providing her with the credit card and when it increased her limit. She says if Halifax had done adequate checks on her situation it would have seen that she wouldn't be able to repay her balance in a reasonable length of time. She says she was too young and a health condition which contributed to the financial stress of making repayments had yet to be diagnosed.

Halifax says it didn't lend irresponsibly to Miss S and that it did all the necessary checks before it lent to Miss S – and when it increased her credit limit.

This service couldn't consider the complaint about the initial account opening because it was made too late under the time limits we have to apply. But I am able to look at the credit limit increases made in the six years preceding Miss S's original complaint to Halifax.

Our investigator thought that Miss S's complaint should be upheld from the point at which her credit limit was increased from £2,000 to £2,500 in March 2018. She thought that there was sufficient evidence available to Halifax at that point for it to understand that Miss S was in a poor financial position and unlikely to be able to sustainably repay any more borrowing.

Halifax agreed to this. It provided a figure for compensation in line with that our adjudicator had suggested as a suitable settlement. Miss S did not agree with this and asked for an ombudsman to review her complaint. Miss S didn't explain what she thought was wrong about the decision, so I have reviewed the entire complaint.

## **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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Miss S's complaint. Having done so, I agree with our adjudicator's view. That view was provided to both parties and is extremely comprehensive.

Halifax needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss S could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Miss S's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

Certain factors might point to the fact that Halifax should fairly and reasonably have done more to establish that any lending was sustainable for Miss S. These factors include things like understanding Miss S's income, the total amount Miss S borrowed, and the length of time Miss S had been indebted.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Halifax says it completed credit reference checks at the point of making the first credit limit increase in September 2016. It also had information from Miss S's bank accounts which she held with Halifax. It says these didn't show any issues.

Halifax has provided the outcome of these checks and I can see that in September 2016 Miss T had a calculated monthly disposable income of around £530. Her unsecured credit commitments elsewhere each month were low at around £15. Miss S didn't have any defaults, arrears or CCJs on her credit file and had been managing her credit card account well. In light of this information I think Halifax did reasonable checks and acted fairly on the results of those checks. I don't think there was anything to suggest the increase in the credit limit would be unaffordable for Miss S.

Halifax relied on some assumptions about Miss S's expenses. This is quite standard in the industry. Halifax and Miss S provided copies of her bank statements at the time and I can see that her monthly disposable income was rather lower than that identified by Halifax's checks, but at £280 a month I still think the repayments on her credit card would have been affordable at that time.

Miss S has indicated that she had health difficulties, some undiagnosed at that point, which might have affected her ability to manage her finances appropriately. Miss S has my sympathy, but I cannot see that she contacted Halifax at any point to discuss any health difficulties, so Halifax can't have been expected to know she may need additional support. Similarly, Miss S has indicated that she asked twice for her credit limit not to be increased, but I haven't seen any evidence of this from the notes Halifax has supplied or from anything else that Miss S has provided. So, I think Halifax's decision to increase Miss S's credit limit in September 2016 was fair and reasonable.

By the time of the second credit limit increase, Miss S's circumstances had changed. The results of Halifax's checks indicated that her monthly disposable income was significantly lower – less than half of her previous disposable income. And her monthly income from employment had decreased significantly, too. Miss S's income had reduced by around 20%. I think at this point Halifax should have asked Miss S about her income and expenditure to establish whether the increase was affordable for her.

Having reviewed Miss S's bank statements for the three months before that credit limit increase I can see that her outgoings were exceeding her income. So, I don't think Halifax should have increased Miss S's credit limit from this point because I don't think Miss S would have been able to sustainably repay any more credit.

Halifax has agreed with this, so I do not think I need to go into any more detail about this. I think Miss S lost out as a result of what Halifax did wrong.

### **Putting things right**

As I don't think Halifax should have increased Miss S's credit limit from £2,000, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Miss S has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore, Halifax should:

- Rework the account removing all interest and charges that have been applied to balances above £2,000.
- If the rework results in a credit balance, this should be refunded to Miss S along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Halifax should also remove all adverse information recorded from March 2018\*\* regarding this account from Miss S's credit file.
- Or, if after the rework the outstanding balance still exceeds £2,000, Halifax should arrange an affordable repayment plan with Miss S for the remaining amount. Once Miss S has cleared the outstanding balance, any adverse information recorded after March 2018\*\* in relation to the account should be removed from her credit file.
- If Halifax has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

\*HM Revenue & Customs requires Halifax to deduct tax from any award of interest. It must give Miss S a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting tax.

\*\* In the original adjudication this date was given as September 2016. This was incorrect; it should be from the point at which Miss S's credit limit was increased unfairly, which is when it was increased to £2,500 in March 2018. However, this makes no material difference as Halifax has confirmed that no adverse information was recorded until October 2021 when Miss S stopped making repayments to her credit card.

### **My final decision**

I uphold in part Miss S's complaint about unaffordable lending from the point of the credit limit increase in March 2018. I direct Bank of Scotland plc trading as Halifax to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 1 February 2023.

Sally Allbeury  
**Ombudsman**