

The complaint

Mrs B is unhappy that Capital One (Europe) plc provided credit to her which she feels wasn't affordable for her at those times.

What happened

In September 2017, Mrs B applied for a credit account with Capital One. Mrs B's application was approved, and Capital One issued Mrs B with a new credit account with an initial credit limit of £750.

In May 2018, Capital One increase the credit limit on Mrs B's account from £750 to £1,750. A further credit limit increase followed in September 2019, from £1,750 to £2,500.

In December 2021, Mrs B raised a complaint because she felt that in all instances, the credit that Capital One had provided to her hadn't been affordable for her. Mrs B also felt that this should have been apparent to Capital One, had they undertaken checks into her financial position before providing the credit to her.

Capital One looked at Mrs B's complaint. They confirmed they had undertaken checks into her financial position before providing the new and further credit to her, and they felt that there hadn't been anything resulting from those checks which should have given them any cause to suspect that Mrs B might not be able to afford the credit being offered to her.

Mrs B wasn't satisfied with Capital One's response, so she referred her complaint to this service. One of our investigators looked at this complaint. But they didn't feel that Capital One had acted unfairly towards Mrs B by providing her with the credit that they had, and so they didn't uphold the complaint.

Mrs B remained dissatisfied, so the matter was escalated to an ombudsman 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.

I issued a provisional decision on this complaint on 24 August 2022 as follows:

It's for a business to decide whether it will offer credit to a customer, and if so, how much and on what terms. What this service would expect would be, that before approving a customer for a new line of credit, or before increasing the amount of credit available to a customer on an existing line of credit, the business would undertake reasonable and proportionate checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

Capital One believe they did that here, and note that at the time of the application they took information from Mrs B about her employment and annual income, as well

as obtained information about Mrs B from a credit reference agency so as to get a better understanding of her wider financial position. And Capital One contend that there was nothing resulting from that information that they feel should have given them any reasonable cause to believe that Mrs B might not be able to afford the credit she was subsequently approved for.

When Mrs B applied for the account in September 2017, she told Capital One that she had gross income of £14,100 per year. This equates to a net monthly income of approximately £1,100. Capital One also reviewed Mrs B's credit file and noted that she had existing active credit commitments at that time totalling £1,300. Capital One then carried out an assessment of Mrs B's income versus her debt, and based on this they felt that the provision of a new line of credit to Mrs B with an initial credit limit of £750 would most likely be affordable for Mrs B at that time.

Capital One's assessment of Mrs B's creditworthiness here appears problematic to me for several reasons. Firstly, Capital One have confirmed that they assessed Mrs B as having residual income after debt repayments of over £1,100. But as explained above, a gross income of £14,100 per year, as Mrs B had declared for herself, only equates to a net monthly income of £1,100, which means that Mrs B couldn't have had the disposable monthly income that Capital One assessed her as having.

Mrs B's net income of £1,100 per month is a relatively low income amount, and as such there's an increased possibility that when all essential monthly spending is accounted for – such as housing, food, utility bills, etc – Mrs B might not have been left with much remaining income from which to make payments towards a new credit commitment. And when assessing Mrs B's potential spending it's also notable that Mrs B didn't provide any information to Capital One as to whether she had any dependent children, leaving that field of the application uncompleted, and that Capital One didn't seek to clarify that point.

Finally, it's also notable from Mrs B's credit file that she has several historical defaulted credit accounts. And while the defaults took place a few years before the Capital One application, Mrs B's credit file showed a combined default balance of nearly £6,500, and it's unclear whether Mrs B was engaged in any attempts to repay these default balances.

All of which means that I feel that the information that Capital One based their affordability assessment on wasn't complete, and didn't provide a detailed enough picture of Mrs B's income and expenditure at that time to enable that affordability assessment to give Capital One a reasonable understanding of Mrs B's financial position upon which to base their creditworthiness decision.

As such, I feel that Capital One should have undertaken more detailed checks into Mrs B's financial position before approving her application for credit, so as to ensure that they weren't providing credit to Mrs B that she couldn't reasonably afford.

There's no set list as to what form such further financial checks should have taken. But I feel that in these circumstances they should in all likelihood have included a request to review Mrs B's current account statements or to have spoken with Mrs B to discuss her circumstances in more detail.

As such, I've reviewed Mrs B's current account statements for the three months immediately prior to the credit application so as to understand what Capital One would have seen, had they reviewed those statements before approving Mrs B's application.

Having done so, it's clear that Mrs B wasn't employed with an income of £14,100 per annum as she'd declared, but that in fact Mrs B's only source of regular income were benefits totalling roughly £158 per week, which equates to a net annual income of approximately £8,200.

It's also notable that these benefits include child tax credit, meaning that Mrs B did have dependent children and therefore the associated spending expenses – which hadn't been included as a factor in Capital One's assessment.

Finally, Mrs B's current account statements also demonstrate that Mrs B was maintaining her current account close to a zero balance at all times, and that she was receiving sporadic but regular payments from family members to supplement her benefit income and to enable her to get by.

All of which means that I feel that had Capital One undertaken more detailed checks into Mrs B's financial position before approving her application for credit – as I'm satisfied that they should have done – it should have been apparent from those further checks that Mrs B wouldn't in all likelihood be reasonably able to afford the new line of credit for which she was applying.

As such, my provisional decision here will be that I'll be upholding this complaint in Mrs B's favour on the basis that I feel that by approving Mrs B's initial application for credit as they did, Capital One did provide credit to Mrs B irresponsibly.

My provisional decision will also include that, to put things right, Capital One must do as follows:

- *Reimburse to Mrs B's credit account all interest, fees, and charges incurred on the account from the point of opening.*
- *If these reimbursements result in a credit balance in Mrs B's favour, Capital One must pay that balance to Mrs B along with 8% simple interest calculated to the date of payment.*
 - *In this instance, Capital One must also remove all adverse reporting relating to this account from Mrs B's credit file.*
- *If following the above instructed reimbursements there remains a balance outstanding on the account for Mrs B to pay, Capital One must contact Mrs B to arrange a suitable interest free repayment plan with her.*
 - *In this instance, when Mrs B had fully repaid any balance which might remain for her to pay, Capital One must then remove all adverse reporting relating to this account from Mrs B's credit file.*

In response to this provisional decision, Capital One may point out that they performed their creditworthiness assessment on the basis of information given to them by Mrs B. I appreciate this point, but as I hope I've been able to explain above, it seems apparent to me that the information that Capital One did base their assessment on, including the information given to them by Mrs B, wasn't sufficient to allow a reasonable understanding of Mrs B's financial position to be drawn at that time, such that further checks should have been undertaken by Capital One. And it remains my position that had Capital One undertaken such further checks, the unaffordability of new credit for Mrs B would have been evident.

In response to my provisional decision, both Mrs B and Capital One confirmed they were happy to accept it. As such, I see no reason not to issue a final decision upholding this

complaint on the basis outlined in my provisional decision above, and I can confirm that I do uphold this complaint in Mrs B's favour on that basis accordingly.

Putting things right

Capital One must reimburse to Mrs B's credit account all interest, fees, and charges incurred on the account from the point of opening.

If these reimbursements result in a credit balance in Mrs B's favour, Capital One must pay that balance to Mrs B along with 8% simple interest calculated to the date of payment.

- In this instance, Capital One must also remove all adverse reporting relating to this account from Mrs B's credit file.

If following the above instructed reimbursements there remains a balance outstanding on the account for Mrs B to pay, Capital One must contact Mrs B to arrange a suitable interest free repayment plan with her.

- In this instance, when Mrs B had fully repaid any balance which might remain for her to pay, Capital One must then remove all adverse reporting relating to this account from Mrs B's credit file.

My final decision

My final decision is that I uphold this complaint against Capital One (Europe) plc on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 19 October 2022.

Paul Cooper
Ombudsman