

The complaint

Mr P says Barclays Bank UK PLC, trading as Barclaycard, lent irresponsibly when providing him with two credit limit increases on his credit card account in 2018. He's also unhappy with a default notice it applied to the account in 2021.

What happened

Mr P applied for a Barclays credit card in 2004. Barclays increased the credit limit from £5,670 to £7,200 in February 2018 and again to £8,700 in October 2018.

By 2021, Mr P had fallen into financial difficulty. He complained to Barclays about it putting his account into default despite it leading him to believe that wouldn't happen yet in a call a few days earlier of 5 November 2021. At that stage, he hadn't yet complained that Barclays had lent to him irresponsibly regarding the two credit limit increases.

Barclays responded to Mr P to say it hadn't acted unfairly in registering the default given the position of the account. But it did believe he'd been told on the call that the account would be put on hold for 30 days. He'd not been told the account would be closed on 10 November 2021. By way of an apology for the poor service Mr P had received, Barclays credited £50 to his bank account.

Unhappy with Barclays' response, Mr P complained to this service. He said Barclays' actions came as a surprise to him despite the calls he'd had with Barclays just prior and were likely to negatively impact his ability to obtain credit in future. Mr P also complained that Barclays had lent to him irresponsibly given his financial situation in 2018.

Our investigator gathered information regarding the lending as that aspect had only been raised by Mr P once Barclays had responded to his initial complaint. Barclays said it hadn't lent to him irresponsibly as it instructed a credit reference agency (CRA) to assess Mr P against its lending criteria taking account of his income, living costs, existing commitments, and management of his account.

The investigator didn't believe Barclays had done anything wrong regarding its lending decisions. But they did think Barclays' payment of £50 as compensation was too low given they felt Mr P would have acted to avoid the default had he been given the opportunity. The investigator considered that Barclays should remove the default marker from Mr P's credit history and pay a further £300 as compensation on top of the payment it had already made.

Mr P didn't accept the investigator's findings about the lending decisions made in 2018 or the amount of compensation payable for the default. In summary, he said Barclays should have known the additional credit it arranged for him would cause him financial difficulty. That was because he was already in substantial debt and that wasn't decreasing. He also said he'd only been making the minimum repayments on the account for many years leading up to 2018 and that should have served as a warning that he couldn't manage a higher credit limit.

Regarding the level of compensation the investigator recommended, Mr P said the default marker would have a negative impact on him even if Barclays was to remove it. He said he wasn't looking for Barclays to be punished, but the £300 it had been asked to pay didn't reflect its actions.

Barclays didn't agree with the findings either. It felt that removing the default, and then possibly adding it again which was likely to happen due to his ongoing financial problems, would only result in it remaining on his credit file for longer. Barclays also felt a further £300 compensation was excessive given it was only at fault for the way in which it informed Mr P about the marker, rather than for the marker itself being applied incorrectly.

As the investigator couldn't resolve the complaint informally, it was passed to me to review afresh. On reviewing the complaint, I issued a provisional decision upholding it. I agreed with the investigator that Barclays should pay Mr P £300 as compensation for its errors. But I also felt Barclays had lent irresponsibly to him in relation to the credit limit increases applied in 2018. I asked it to put things right for Mr P in that regard as well.

I gave the parties the chance to respond before I reconsidered the complaint. Mr P confirmed he accepted my decision. He added that he wanted Barclays to agree to freeze interest from this point and that any agreed payment arrangement between them shouldn't show as a payment arrangement on his credit file. He believed that to be a reasonable request.

Barclays also accepted my provisional decision, adding it could pay the £300 towards Mr P's Barclays account or into his bank account. If he chose the latter, Barclays would need his sort code and account number.

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 approach to considering unaffordable and irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. And I've considered this in deciding Mr P's complaint.

Having done so, and on considering the responses to my provisional decision, my final decision is to uphold the complaint. I'll explain why.

There are several questions that I've thought about when deciding if Barclays treated Mr P fairly and reasonably when it provided him with the credit limit increases. These include:

- 1) Did Barclays complete reasonable and proportionate checks to satisfy itself that Mr P would be able to repay the credit advanced in a sustainable way?
- 2) If not, what would reasonable and proportionate checks have shown at the time?
- 3) Ultimately, did Barclays make fair lending decisions?
- 4) Did Barclays act unfairly or unreasonably in some other way?

I'll consider each of these in turn.

Did Barclays complete reasonable and proportionate checks to satisfy itself that Mr P would be able to repay the credit advanced in a sustainable way?

The rules that Barclays had to follow required it to carry out checks that would enable it to reasonably assess whether Mr P could afford to repay the credit being offered. This is often referred to as an '*affordability assessment*'.

The rules don't set out what specific checks Barclays needed to carry out, but they did set out that those checks needed to be proportionate to the circumstances of the application. I think what this meant in practice was that the scope and extent of Barclays' checks needed to reflect the nature of the lending, bearing in mind things such as the amount of credit, the interest rate, the monthly and total amounts repayable, and any indications of customer vulnerability.

The checks Barclays needed to carry out as part of its affordability assessment had to be '*borrower focussed*'. What I mean by this is that the checks needed to consider whether paying the credit back would cause Mr P any difficulties or have any adverse consequences for him. They would also need to take account of factors such as the amount of money being lent, the monthly repayments, total charge for the credit and the interest rate being charged. This isn't an exhaustive list.

And as a result of the above, I think reasonable and proportionate checks needed to be more thorough if Mr P had a low income. This would reflect that it could be more difficult for him to meet the credit card repayments with a low income.

Barclays would also need to be more thorough the higher the amounts he had to repay, as it would be more difficult to make higher repayments depending on his income.

With these principles in mind I've thought about whether Barclays completed reasonable and proportionate checks to satisfy itself that Mr P would be able to repay his credit card in a sustainable way.

In summary then, the circumstances of the credit limit increases are as follows:

- Mr P initially applied for the credit card in 2004.
- The increases complained about were applied in February and October 2018. Mr P was in paid work at the time.
- The credit limit was increased substantially in 2018, by £1,530 and finally by £1,500.

Prior to increasing the credit limit, Barclays instructed a CRA to assess Mr P's financial situation. According to the CRA, he had external credit card balances of more than £21,000 and current account balances of less than £800. The CRA held no record of any external loan or mortgage balances or payments. Mr P didn't regularly pay his Barclays credit card bill in full and, on average, paid back around 3% of the balance each month. The CRA estimated Mr P paid around £1,100 to £1,200 a month for things like rent, essential spending, utilities, and council tax.

In terms of his existing limit, Barclays suggests there was no significant cause for concern. Although I note that, while Mr P seemed to be managing the account to an extent, he was only roughly making the minimum monthly repayments and his level of borrowing had increased along with each credit limit increase that Barclays provided him with. The average monthly repayment he was making was only 3% of the balance and this didn't suggest he could repay the borrowing itself.

By 2018, Mr P also owed a significant sum – more than £21,000 – to third-party credit card providers. I think this meant further borrower focussed checks were warranted, especially since the credit limit was due to go up again and by significant amounts. The indications

from this were that Mr P might have had problems repaying the balance on his account with the existing credit limit. There was a real risk that increasing the credit limit further might cause further problems for him.

I also haven't seen anything to show Barclays was aware of Mr P's income in 2018. I realise it may have had a record of it when the account started in 2004, but that was 14 years before the credit limits were increased and there was a risk that things had materially changed during that time.

Mr P's provided a copy of an email he sent to Barclays in December 2015. In it, he talked about being in hardship, having to arrange high cost borrowing and being unable to buy his children anything for Christmas. I realise that was just over two years before the first credit limit increase, but I think it put Barclays on notice that Mr P had been in financial difficulty before the credit limit was raised and that it might be prudent to ask questions before increasing his borrowing further.

While I note Barclays says the CRA was confident Mr P had a regular monthly income that exceeded his expenditure, I can't see what information that decision was based on.

As I've already alluded to, Barclays's internal lending policy isn't a determining factor in this case. The question is more one of whether it acted in accordance with the lending rules and regulations of the time. Bearing in mind the above, and that I can't see that Barclays had an up-to-date record of Mr P's income in 2018, I don't believe the checks Barclays carried out prior to the credit limit increases showed he could sustainably afford to make the repayments. I don't think that the checks were, on balance, reasonable and proportionate.

What would reasonable and proportionate checks have shown at the time?

I can't fairly uphold the complaint purely on the basis that I believe Barclays fell short in respect of the checks it needed to carry out. I must also go on to consider whether such checks ought to have made a difference to Barclays' lending decision.

I think Barclays should have ensured that the scope and extent of its checks were adapted to the circumstances of its offers to Mr P. Credit limit increases of around £1,500 represented a relatively substantial extra financial burden in addition to his existing borrowing. Given this and the information Barclays had about Mr P further checks would, in my opinion, have needed to verify his income in 2018. These would have been in addition to the checks it carried out and to establish that he was able to afford the increased credit limits.

One of the difficulties, given several years have passed since the credit limit increases were offered, is understanding what reasonable and proportionate checks might have shown had Barclays carried them out. However, on my instruction our investigator asked Mr P for details of his income in 2018 which has helped provide a more accurate picture of his financial situation at the time.

In the absence of any specific questions from Barclays in 2018, I wanted to know what Mr P's income was back then. He's confirmed that, prior to 2019, he was self-employed. He said his income fluctuated because of the nature of his work but that he earned £9,165 in 2018. I see no reason to doubt what Mr P's said about this.

That being the case, it seems reasonable and proportionate checks in 2018 would have shown Barclays that Mr P was on a relatively low income. That's in addition to what Barclays was already aware of via the CRA – including that Mr P already owed around £21,000 to

third-party credit card providers and that his Barclays credit card balance was steadily increasing over time.

Did Barclays make a fair lending decision?

That Mr P's income was relatively low at the time of the lending decisions, he'd regularly been paying around 3% of his credit card balance, and was known to have a significant level of borrowing with third-party credit card providers as well as with Barclays, all indicates to me that he was struggling financially or at least might be.

I believe the indications are that borrower focussed checks by Barclays would have highlighted that Mr P's financial situation was such that the credit he was offered in 2018 was unlikely to be sustainably affordable for him.

For these reasons, I think Barclays should have realised in the circumstances that it was unlikely Mr P would have been able to cope with the additional credit it was offering and that it wasn't appropriate to increase its lending to him by the amount in question in February 2018. By extension, it's likely that Barclays shouldn't have agreed to the further increase to the credit limit in October 2018 either.

Did Barclays act unfairly or unreasonably towards Mr P in some other way?

I've carefully thought about everything provided. Having done so, I've not seen anything to suggest that Barclays acted unfairly or unreasonably towards Mr P in some other way.

Customer service and default applied in 2021

Barclays accepts that it's made mistakes in its communications with Mr P. Primarily, these concern the two calls between Mr P and Barclays on 5 November 2021. I've listened to recordings of both calls. In the first call, Mr P contacted Barclays and was told a hold would be placed on his account pending him and his wife potentially returning to work in the coming weeks. Mr P was advised to complete an updated income and expenditure assessment in due course.

The advisor Mr P spoke to then called him back around 25 minutes later to say they'd realise Barclays had written to him in September 2021. The advisor said no hold needed to be applied to the account after all as interest charges etc. had already been suspended following that letter. The advisor went on to say Mr P should call back in a few weeks to go through his up-to-date income and expenditure figures. Mr P agreed to do that.

What the advisor didn't address with Mr P was that the letter said a default would be applied to the account unless he brought the account up to date and arranged to pay the minimum payments by 10 November 2021 – just five days after the call took place.

I realise the consequences of not complying by the date given were set out in the letter. But I think Mr P reasonably – as many would in that situation – placed emphasis on what he'd been told over the phone rather than on the contents of the letter sent two months earlier. And over the phone no mention was made of what Mr P needed to do to avoid a default or when he needed to do it.

Barclays paid him £50 for the oversight but I don't think that sufficiently compensates Mr P. I say that because I'm persuaded by what he's said about what he'd have done to avoid the default being applied by, for example, borrowing money from family or friends. In the circumstances, I consider it reasonable to think on balance that no default would have been added to the account in November 2021 had Barclays properly advised Mr P at that time.

To put things right for Mr P, I think Barclays should remove the default in question from Mr P's credit history.

In terms of financial compensation, I haven't seen any evidence to show Mr P's been treated less favourably by any third parties because of the default that was applied. It follows that I don't think it would be fair for me to ask Barclays to compensate him for any financial losses in that regard. That's not to say that Mr P might not be treated less favourably in future or that it wouldn't be open for him in that situation to approach Barclays in the first instance in future should he believe that to be the case.

Nevertheless, for the distress and inconvenience I consider its actions have undoubtedly caused Mr P, I believe Barclays should pay him £300 as compensation in addition to the £50 it's already paid him.

In deciding this amount, I've taken account of what Mr P's said about potential future losses the default might cause him. However, it isn't possible for me to comment on that given those losses are hypothetical at this stage. And, as I gather Mr P's aware, I can only make directions or awards as compensation – I have no powers to punish Barclays.

As for Mr P's request that Barclays agree to freeze interest and that any agreed payment arrangement between them shouldn't show as a payment arrangement on his credit file, that would be for them to discuss between themselves. I make no award in relation to this complaint other than as set out below.

Putting things right

Barclays should put things right for Mr P in relation to the credit limit increases on the credit card in 2018, albeit he's had the benefit of the money borrowed and so may need to repay the principal amount. If there's still an outstanding balance due on Mr P's credit card and Barclays has transferred the debt to a third party, then Barclays should buy back the debt if it can. Whether or not Barclays can buy back the debt, it should achieve the following:

- Rework the account to ensure that, from February 2018, interest is only charged on the first £5,670 outstanding – to reflect the fact that no further credit limit increases should have been provided.
- If an outstanding balance remains once these adjustments have been made, Barclays should contact Mr P to arrange a suitable repayment plan for this.
- If no outstanding balance remains, any adverse information should be removed from the credit file.

And

- If the refund means there's no remaining balance, any extra should be treated as overpayments and returned to Mr P.

And

- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement†.

Barclays should also pay Mr P £300, in addition to the £50 it's already paid, in relation to its handling of the default applied to the account in November 2021 and the overall service

provided. Mr P will need to confirm with Barclays as to which account he'd like the £300 paid to and, if necessary, the account details.

† HM Revenue & Customs requires Barclays to take off tax from this interest. Barclays must give Mr P a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given, I've decided to uphold this complaint. I require Barclays Bank UK PLC, trading as Barclaycard, to put things right for Mr P as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 22 November 2022.

Nimish Patel
Ombudsman