

The complaint

Mr L complains that Vanquis Bank Limited was irresponsible to approve his credit card application.

What happened

Mr L applied for a Vanquis credit card in February 2019 and his application was approved with a £1,000 credit limit on the card.

Mr L says he shouldn't have been given the card as he'd lost his job and he had a low credit score. He adds that Vanquis told him it didn't need to carry out any checks before approving his application. Mr L also says that the debt was sold to a third party without him being told.

Vanquis confirmed that it asked Mr L about his income and checked his credit file before opening his credit card account on 1 February 2019. It says the checks showed Mr L met its lending criteria and it offered him a modest facility of £1,000. Vanquis says it sent Mr L a default notice on 11 June 2020 which explained the account would be sold to a third party if it remained in arrears. It says that, as Mr L did not respond, and the account was not brought up to date, it was sold on 8 April 2021.

Our adjudicator did not recommend that the complaint should be upheld. She found that proportionate checks would have indicated the credit limit was affordable and that Vanquis acted fairly when Mr L was in financial difficulty.

Mr L responded to say, in summary that he lost his home in February 2019 and became unemployed in May 2019 with three children to support. He adds that his income was around £13,000, rather than the £20,000 on which his application was assessed, and his credit history was poor. Mr L says he did not respond to correspondence as he was homeless at the time and that another lender agreed its lending was irresponsible.

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 need to take into account the relevant rules, guidance and good industry practice.

The Financial Conduct Authority (FCA) was the regulator when Vanquis lent to Mr L. Its rules and guidance obliged it to lend responsibly. As set out in the regulator's Consumer Credit Sourcebook (CONC), this meant that Vanquis needed to take reasonable and proportionate steps to assess whether or not a borrower could afford to meet their loan repayments in a sustainable manner over the lifetime of the agreement.

CONC 5.2A.4R states that:

A firm must undertake a reasonable assessment of the creditworthiness of a customer before:

- 1. entering into a regulated credit agreement; or*
- 2. significantly increasing the amount of credit provided under a regulated credit agreement; or*
- 3. significantly increasing a credit limit for running-account credit under a regulated credit agreement.*

Repaying debt in a sustainable manner was defined as being able to meet repayments out of normal income without the customer having to borrow to meet the repayments, without failing to make any other payment the customer has a contractual or statutory obligation to make and without the repayments having a significant adverse impact on the customer's financial situation (CONC 5.2A.12R).

In general, I'd expect a lender to require more assurance the greater the potential risk to the borrower of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance, potentially by carrying out more detailed checks

- the *lower* a person's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the borrower is required to make payments for an extended period).

In addition, as per CONC 5.2A.16G (3): *For the purpose of considering the customer's income, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence (for example, in the form of information supplied by a credit reference agency or documentation of a third party supplied by the third party or by the customer).*

And CONC 5.2A.17R (2) says: *The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer's current non-discretionary expenditure.*

Bearing all of this in mind, in coming to a decision on Mr L's case, I have considered the following questions:

- Did Vanquis complete reasonable and proportionate checks when assessing Mr L's loan application to satisfy itself that he would be able to repay the credit card in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?
- Did Vanquis make a fair lending decision?

- Did Vanquis act unfairly or unreasonably in some other way?

With regard to the first question, Vanquis has sent evidence that it asked Mr L about his income and carried out a credit check.

The credit check showed Mr L had four active accounts, of which two had a combined balance of around £180. All the active accounts were up to date with payments and although there were also some historical defaults, the most recent of those was in August 2017. Mr L has also sent in a recent full credit report and I'm satisfied Vanquis's credit check at the time included all the relevant information. I don't find there was anything in the check that should have indicated to Vanquis that Mr L's application should be declined.

However, as a credit card is a long-term commitment, I do consider a proportionate check should have included assessing whether it was sustainably affordable. I haven't seen any evidence that Vanquis verified the income figure Mr L provided and, indeed, better checks would have shown he actually earned around £14,000 per year, rather than the £20,000 he'd declared. I acknowledge that Mr L said he lost his job, but I am satisfied he was still in employment at the time of the credit card application.

Mr L has also provided bank statements and I have considered what Vanquis may have found had it asked Mr L about his expenditure at the time. I can see Mr L spent around £400 on rent and bills and a further £100 on television and mobile phone costs. There are also cash withdrawals each month totalling around £500 which roughly corresponds with what Mr L says he spent on food and petrol. I accept there are returned direct debits on the account, but these happened because Mr L received his income on a weekly basis and the monthly payments sometimes didn't correlate with when funds were available. Overall, Mr L was living within his means.

Given Mr L had very little existing credit, and Vanquis set a modest credit limit of £1,000, I'm satisfied it made a fair lending decision in the circumstances. I've also read its customer contact notes from when Mr L told it he'd lost his job and I find Vanquis acted reasonably by freezing interest at that point. I also can't conclude it did anything wrong by defaulting the account and selling it to a third party when it did.

I acknowledge Mr L says another lender has agreed its lending was irresponsible, but this service makes its decisions based on the individual merits of each case.

In summary, I find Vanquis made a fair lending decision and did not act unfairly or unreasonably in any other way.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 13 February 2023.

Amanda Williams
Ombudsman