

## Complaint

Mr B has complained about credit cards Creation Financial Services Limited ("Creation") provided him with. He says it was irresponsible for the same company to approve five credit cards for him.

## Background

Mr B had five credit card accounts with Creation in total. Mr B's accounts had the following lending decisions made by Creation on the following dates:

Account	Lending Decision	Credit Limit	Date
<b>A</b>	Initial opening	£5,000	March 2010
	Limit increase	£8,500	January 2018
	Limit increase	£9,500	November 2019
	Limit increase	£10,000	October 2020
<b>B</b>	Initial opening	£4,000	November 2016
	Limit increase	£5,000	July 2017
	Limit increase	£6,000	November 2019
	Limit increase	£8,000	October 2020
<b>C</b>	Initial opening	£5,000	January 2017
	Limit increase	£6,000	August 2017
	Limit increase	£7,000	November 2019
<b>D</b>	Initial opening	£3,700	May 2017
	Limit increase	£4,400	November 2019
	Limit increase	£6,216	October 2020
<b>E</b>	Initial opening	£5,000	August 2018
	Limit decrease	£4,830	April 2020
	Limit decrease	£4,700	October 2020

We've already, separately, explained to the parties why we're unable to look at the complaint about the initial decision to provide account A. So we've not considered whether Creation acted fairly and reasonably when opening that account. We've only considered the limit increases on that account as well as the complaints about accounts B to E.

Creation didn't uphold Mr B's complaint. It said that all of the appropriate eligibility and affordability checks were conducted prior to the approval of Mr B's credit cards.

One of our investigators looked at everything provided and thought that Mr B's complaint should be partially upheld. She thought that Creation ought to have realised that it shouldn't have provided any additional credit to Mr B after the credit limit increase to £8,500.00 on account A in January 2018. In other words she upheld the complaint about the lending decisions specified below:

Account	Lending Decision	Credit Limit	Date
A	Limit increase	£9,500	November 2019
	Limit increase	£10,000	October 2020
B	Limit increase	£6,000	November 2019
	Limit increase	£8,000	October 2020
C	Limit increase	£7,000	November 2019
D	Limit increase	£4,400	November 2019
	Limit increase	£6,216	October 2020
E	Decision to provide account	£5,000	August 2018

Our investigator also thought that Creation failed to appropriately respond to Mr B's request for assistance when he had difficulty making his credit card payments. Overall she thought that Creation needed to refund all of the extra interest and charges it added as a result of the extra credit it shouldn't have provided and also pay Mr B £200 for the distress and inconvenience caused by the delay in responding to Mr B's correspondence.

Mr B accepted our investigator's assessment. But Creation disagreed and asked for an ombudsman's review. So the complaint was passed to me for a final decision.

## My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As the parties do not appear to be in dispute about the lending decisions prior to the opening of account E in August 2018, I've focused my findings from this point onwards.

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.

Creation 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 Mr B could afford to repay what he 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 the consumer'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. But certain factors might point to the fact that Creation should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer'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 greater the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that

prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

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

I've kept all of this in mind when deciding Mr B's complaint.

*Did Creation carry out reasonable and proportionate checks to satisfy itself that Mr B would be able to repay what he borrowed in a sustainable way at the time it provided account E?*

Creation has said that it used a robust credit assessment tool, which assessed Mr B's individual circumstances before providing all of Mr B's accounts. However, despite having been asked for this on a number of occasions, other some basic information regarding his income, it hasn't provided any detail in relation to what its assessment of Mr B's circumstances showed and what led it to believe that a further credit card – in relation to account E - was affordable.

What is important to note is that when Mr E was provided with account E he already had credit limits totalling £23,200.00 available to him on accounts A to D. So when providing Mr B with a credit limit of £5,000.00 on account E, Creation needed to understand whether Mr B was able to repay £28,200.00, plus any interest accrued, within a reasonable period of time.

Creation has provided little detail on, let alone the evidence to support, what it knew about Mr B's ability to repay £28,200.00, plus interest, within a reasonable period of time in August 2018. Indeed, it's arguable that it is Creation's view that its checks were proportionate because its credit assessment tool approved account E.

For the avoidance of doubt, Creation is responsible for any lending approved by its systems. Given that Creation insists that all of Mr B's credit cards were affordable, it ought to know – and have explained – not only what data its credit assessment tool analysed, but more importantly also how it used and interpreted this information to make responsible lending decisions. Without this explanation from Creation, I cannot and will not take it as read that the decisions from its 'robust' credit assessment tool were fair.

This is especially as given the total amount of credit that was made available to Mr B. And given what any credit search on Mr B is likely to have shown at the time, it is my view that Creation would have needed to have a reasonably detailed understanding of Mr B's income and expenditure in order for its checks to have been reasonable and proportionate.

Creation has not been able to provide me with the evidence to support that it had even a basic understanding of Mr B's expenditure in August 2018, let alone a detailed one. So I'm not persuaded that the checks it carried out before providing Mr B with account E were reasonable and proportionate.

As I don't think that Creation carried out proportionate checks before providing account E, I'd usually go on to recreate what a proportionate check is more likely than not to have shown. However, for reasons I'll go on to explain in the next section of this provisional decision, I don't think that it is necessary for me to do that here.

*Bearing in mind the circumstances, was there a point where Creation ought reasonably to have realised it was increasing Mr B's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?*

I'm mindful that the relevant rules and guidance makes it clear that a lender shouldn't continue offering credit where the borrowing is unsustainable or otherwise harmful and/or where it's apparent the borrower may be experiencing financial difficulties. So in addition to assessing the circumstances behind each *individual* lending decision, I also think it's fair and reasonable to look at what unfolded during the course of Mr B's customer relationship with Creation.

I've already explained why, I think that reasonable and proportionate affordability checks weren't completed when Creation provided Mr B with account E in August 2018.

In my view, Mr B's management of his existing accounts as well as his increasing indebtedness showed that he may well have been struggling financially. Mr B made 8 requests for credit limit increases in the four-month period leading up to account E being provided. And four of these were made in the month prior to account E being provided. Furthermore, Mr E obtained a credit card and loan from other providers in this period too.

I don't think that offering Mr B a further credit card with a credit limit of £5,000.00 and therefore offering substantially more credit at a high APR when Mr B was already struggling to manage his existing debt was offering assistance. In my view, Creation increasing Mr B's credit limit in this way and in these circumstances was adding to any potential financial difficulty rather than offering assistance.

I'm also astounded by Creation's decision to offer Mr B a further seven limit increases on accounts A to D in the circumstances that it did in the eleven-month period between November 2019 and October 2020. Creation made close to £7,000.00 extra available to Mr B. And most astonishingly of all, Creation made a further £4,000.00 available to Mr B, across accounts A to D, in October 2020 despite also taking the decision to reduce the credit limit on account E and despite it also writing to Mr B in March 2020 to tell him that he was in persistent debt. And this is in circumstances where Creation has offered no further evidence demonstrating that it better understood whether Mr B had the ability to repay this credit either.

In my view, Creation increasing Mr B's credit limit and advancing further funds in this way - when he was already clearly demonstrating an inability to manage his existing debt - unfairly increased and prolonged his indebtedness. I think that Creation ought fairly and reasonably to have realised that Mr B's existing debt had already become a problem and taken steps other than continuing to provide more and more expensive credit. Instead, its actions meant that Mr B paid Creation high amounts of interest for the privilege of it allowing him to delay dealing with his unsustainable debt.

Given all of Creation's obligations and what I think is fair and reasonable taking into account the circumstances and everything I've covered in this section, I find that Creation ought fairly and reasonably to have realised it was increasing Mr B's indebtedness in a way that was unsustainable or otherwise harmful. And so it shouldn't have provided Mr B with account E in August 2018 and any of the credit limit increases on accounts A to D from this point onwards.

#### Mr B requesting help from Creation in order to repay what he owed on his accounts

Creation has confirmed that it received Mr B's email of 1 November 2021, which contained his formal complaint. As part of this correspondence Mr B confirmed that he was struggling to make his credit card payments and requested consolidating his balances into a loan with more manageable payments.

I accept that Creation might not have been prepared to offer Mr B a consolidation loan. Nonetheless once a lender is told, or it realises, that a borrower is experiencing financial difficulties I would expect it to exercise forbearance and due consideration, in line with its regulatory obligations. And in this instance Creation didn't respond to Mr B's correspondence for a number of months.

Creation says that this was because of internal delays. This may or may not have been the case. However, I think that Creation's failure to promptly respond to Mr B's correspondence indicating that he was having difficulty keeping up with his payments wasn't in line with its obligations and this is a further reason why I think that it failed to act fairly and reasonably in its dealing with Mr B.

## **Conclusions**

Overall and having carefully thought about everything, I find that:

- Creation *didn't* complete reasonable and proportionate checks on Mr B to satisfy itself that he would be able to sustainably repay what he owed on account E or any of the credit limit increases offered on accounts A to D from November 2019 onwards;
- Creation ought fairly and reasonably to have realised that account E and the credit limit increases on accounts A to D from November 2019 onwards were unsustainable or otherwise harmful for Mr B and were unfairly and excessively increasing his overall indebtedness;
- Creation also acted unfairly or unreasonably towards Mr B as a result of the delay in setting up a repayment plan on his accounts.

The above findings leave me reaching the overall conclusion that Creation unfairly and unreasonably provided Mr B with the credit card for account E and the credit limit increases on accounts A to D from November 2019 onwards.

### *Did Mr B lose out as a result of Creation's shortcomings in relation to his accounts?*

As Mr B had to pay a significant amount of interest and charges as a result of being provided with a substantial amount of additional credit which he couldn't afford, I think that he lost out because of what Creation did wrong. So Creation should put things right.

### **Fair compensation – what Creation needs to do to put things right for Mr B**

Having carefully considered everything, I think that it would be fair and reasonable in all the circumstances of Mr B's complaint for Creation to put things right by:

- paying Mr B £200 for the distress and inconvenience caused by its delay in setting up a repayment plan for him. If Creation does not pay this £200 compensation for inconvenience and distress within 28 days of the date on which we tell it Mr B accepts my final decision then it must also pay interest - at 8% a year simple - from the date of my final decision to the date of payment.
- reworking accounts to A to D so that from November 2019 no interest should be charged on the amount of the credit limit increases from these dates onwards, to reflect the fact that no credit limit increases should have been

provided on these accounts. All late payment and over limit fees should also be removed; and

- reworking account E so that all interest, fees and charges added are removed, to reflect the fact that this account should never have been provided in the first place. All late payment and over limit fees should also be removed

AND

- If outstanding balances remain on the accounts once these adjustments have been made Creation should contact Mr B to arrange a suitable repayment plan for these. If Creation considers it appropriate to record negative information on Mr B's credit file, it should backdate this to the respective date it shouldn't have provided an account or credit limit increase.

OR

- If the effect of removing all interest, fees and charges results in there no longer being any outstanding balances, then any extra should be treated as overpayments and returned to Mr B, along with 8% simple interest on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, to an account, then Creation should remove any adverse information recorded about that account from Mr B's credit file†.

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

### **My final decision**

For the reasons I've explained, I'm upholding Mr B's complaint. Creation Financial Services Limited should put things right in the way I've confirmed and set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 3 August 2023.

Jeshen Narayanan  
**Ombudsman**