

The complaint

Mr D complains that Vanquis Bank Limited lent to him irresponsibly in providing him with a credit card account and a subsequent increase to the credit limit.

What happened

Mr D applied for the credit card in May 2016. His application data included that he was a student with an annual income of £25,000. Vanquis provided the card with a limit of £500, which it increased to £1,000 in September 2016.

In 2022 Mr D complained to Vanquis. He said it had lent to him irresponsibly regarding the credit card and that it hadn't carried out sufficient checks prior to offering the credit card and limit increase.

Vanquis responded to say it was satisfied it had lent to him appropriately and in line with its acceptance criteria. It said it had considered a range of information when looking at his application and credit limit increase (CLI) including that provided by a credit reference agency (CRA) and the information provided by Mr D.

Unhappy with Vanquis's response, Mr D complained to us. Our investigator looked into the complaint and didn't recommend that it should be upheld. They believed Vanquis was entitled to provide the credit card with the original credit limit granted and also the CLI based on the information available.

Mr D disagreed with the investigator's findings. He said, among other things, that Vanquis didn't carry out proper checks when it made either lending decision. He said if it had, it would have become apparent that he was in financial difficulties in 2016 and that it shouldn't have lent to him. He said he was vulnerable due to his poor mental health at that time.

Because the investigator couldn't resolve the complaint informally, it was passed to me to review afresh.

I issued my provisional decision on the complaint last month. I said I intended to uphold the complaint on the grounds that Mr D's income, as stated to Vanquis in May 2016, ought to have raised concerns and led to further borrower focused checks. I concluded that, had these checks been carried out at that time, Vanquis shouldn't have lent to Mr D or later increased the credit limit. I asked Vanquis to put things right for Mr D and pay him £200 as compensation for the distress and inconvenience it had caused him.

I asked the parties to provide further comments and information before I reconsidered the complaint.

Mr D felt I'd covered everything in my decision but added a few points and questions – some of which I've responded to via the investigator and offered clarification on separately to this decision. Among other things, Mr D queried aspects of the award I was proposing. He also felt Vanquis had breached the lending rules and regulations in offering the credit and by 'editing' the credit reference report it had obtained from a third-party. Mr D asked if proof of

such behaviour might lead me to award more compensation. No further evidence was received to date.

Vanquis didn't agree with my provisional decision. It felt my argument that Vanquis should have carried out further checks was arbitrary and that, even if further checks were carried out, it still would have been entitled to lend to Mr D in the circumstances.

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 D's complaint.

Having done so, and after carefully considering the responses to my provisional decision, I've decided to uphold the complaint. I'll explain why.

There are several questions that I've thought about when deciding if Vanquis treated Mr D fairly and reasonably when it provided him with the credit in May and September 2016. These include:

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

I'll consider each of these in turn.

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

The rules that Vanquis had to follow required it to carry out checks that would enable it to reasonably assess whether Mr D 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 Vanquis needed to carry out – which is perhaps the aspect Vanquis finds arbitrary because it's accepted some judgment is required in this regard. But the rules 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 Vanquis's 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 Vanquis 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 money back would cause Mr D 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, because of the above, I think reasonable and proportionate checks needed to be more thorough if Mr D 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.

Vanquis 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 Mr D's income.

With these principles in mind, I've thought about whether Vanquis completed reasonable and proportionate checks to satisfy itself that Mr D would be able to repay the credit in a sustainable way.

In summary then, the circumstances of the credit card application and CLI are as follows:

- The annual percentage rate (APR) that applied to the credit card was 39.9%.
- Mr D was recorded by Vanquis as having an annual income of £25,000.
- The credit limit of £500 (prior to the CLI to £1,000) was, in itself, fairly low particularly when compared with Mr D's stated earnings.

I can see that Vanquis relied on information from Mr D regarding the lending and in doubling the credit limit a few months later. In its final response to Mr D's complaint, Vanquis said it had carried out checks to ensure it made a responsible lending decision to increase the credit limit. Its searches revealed no new county court judgements (CCJs) or newly defaulted debt within the previous six months. It felt the level of outstanding external lending (excluding mortgage debt) was within the levels set as part of its lending policy.

Mr D disputes that Vanquis carried out certain checks in 2016 or, if they were, says that they weren't carried out properly. For example, he's provided evidence of a default notice applied to his credit file just prior to the application with Vanquis in May 2016.

I think there was at least one aspect in which the checks Vanquis carried out fell short of what was required of it. Namely, that Mr D's stated occupation and income were accurate. He said in his application that he was a student and was earning £25,000 a year.

I accept it was possible from Vanquis's perspective that Mr D was a student earning that amount of money. It certainly couldn't be ruled out. But I also consider that would have been an unusual circumstance that ought to have raised concerns with Vanquis.

Further, Vanquis would have been aware that many of its customers had imperfect credit histories and represented a higher-than-average risk – something reflected in the relatively high APR figure of 39.9% offered. As Vanquis said in its final response to Mr D of August 2022, it saw itself as a '*second-chance*' lender aiming to '*assist those individuals with moderate means to have access to credit products that may otherwise be unavailable to them*'. Yet it apparently had few concerns with Mr D presenting as a student earning something approaching the median annual earnings in the UK at that time.

Of course, Vanquis wasn't responsible for the figure Mr D gave – Mr D was, and he accepts this. But Vanquis was responsible for what it did, if anything, with that information. It's reasonable to expect that it would have sought to verify the information provided, perhaps with Mr D at first and then with the aid of supporting evidence.

I realise that the initial credit limit was set at £500 and can see how that might have been less significant to someone in employment and earning a reasonable wage. But to many students, who were likely to earn little or nothing in comparison and who might in fact be

more likely to be in debt, even that amount became more significant when considered in context.

It could be that Vanquis tried to explore the issue of Mr D's income with him over the phone. But, due to the time that's passed, I gather it's no longer able to provide call recordings from that time. Without them, or at least a reliable record of the notes taken from the time of any calls, it's difficult to say what if anything was discussed about his income and/or how he was earning it.

Given the uncertainty surrounding Mr D's financial situation in 2016 and the lack of evidence showing this was explored in any detail, I don't believe Vanquis completed reasonable and proportionate checks in the circumstances as it should have done. Vanquis accepts it used the income figure given in May 2016 for the subsequent CLI on the basis there was nothing to show it had changed in the intervening months. It follows that I don't believe Vanquis completed appropriate checks then either.

I still think the above ought to have led Vanquis into completing further checks. These checks would have helped it to determine whether Mr D could sustainably afford to repay the credit limit and the CLI.

As I've already alluded to, Vanquis'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 at the relevant times, which required it to carry out reasonable and proportionate checks to satisfy itself that the Mr D could sustainably afford to make the repayments in respect of the credit facilities he was being provided with. Bearing in mind the above, I don't believe the checks Vanquis carried out prior to it offering the credit limit or the CLI showed Mr D 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 these times?

I think it would have been reasonable for Vanquis to check how Mr D was earning the money he said he was when he applied for the account. This would have been in addition to any checks it carried out and to establish that he was able to sustainably afford the credit card repayments.

With respect to Mr D, he accepts he was unwell in 2016 and that this led him to provide inaccurate information in applying for the credit card. As it happens, although he was a student at the time, he wasn't earning a wage. He says the only income he received was through state disability and housing benefits, which came to much less than £25,000.

I consider it possible that Mr D could have provided inaccurate information again if questioned further by Vanquis in order to secure the credit card account. But ultimately, I think it's fair to expect that any reasonable checks carried out by Vanquis would have uncovered the reality of the situation.

I'm satisfied the information I've mentioned would have helped Vanquis develop a picture of Mr D's financial situation at that time, which was that Mr D wasn't working and certainly wasn't earning as much as £25,000 a year. While I'm prepared to accept on the available evidence that the default notice of 2016 likely wasn't brought to Vanquis's attention in May 2016, it's possible that it would have become aware of this if it had taken the time to carry out further checks regarding his true income.

I believe the circumstances as they were ought to have given Vanquis significant cause for concern in offering the lending that it did.

Did Vanquis make fair lending decisions?

Mr D argues that he was in financial difficulties before applying to Vanquis and has provided evidence of a default added just prior to that. I'm aware that there can sometimes be delays in credit histories being updated. So, as I referred to above, I accept it's at least possible that this is why the default didn't flag on the searches carried out by the CRA that Vanquis instructed in May 2016.

Notwithstanding those issues, I believe the indications are that borrower focussed checks by Vanquis would have highlighted that Mr D's financial situation was such that the credit he was offered was unlikely to be sustainably affordable for him. He wasn't working and he was in receipt of state benefits that meant his income was much lower than he'd declared. Vanquis might also have discovered the then recently added default if it had taken the time to complete further checks.

For these reasons, I think that Vanquis should have realised in the circumstances that it was unlikely Mr D would have been able to cope with the credit it was offering and that it wasn't a fair decision to lend to him in May 2016 and, by extension, to increase the lending in September 2016.

Did Vanquis act unfairly or unreasonably towards Mr D in some other way?

I've carefully thought about everything provided. Having done so, I consider that the decision to lend caused Mr D a degree of distress and inconvenience as well as financial loss. I haven't seen anything to suggest that the lending was the primary cause of the difficulties he experienced around that time and beyond. And although Mr D argues Vanquis knew or ought to have known he was vulnerable, I'm not satisfied that was the case on the available evidence.

That said, Vanquis's lending resulted in default and ultimately led to a CCJ against Mr D. As compensation for the worry and upset caused, I think it would be fair for Vanquis to pay him £200 in the circumstances.

I've thought about Mr D's comments about Vanquis's behaviour and what it might mean for my recommended compensation for distress and inconvenience if it breached lending rules and/or manipulated credit data. But this service isn't the regulator of financial services. We have no power to punish or fine financial businesses and instead must consider what's fair and reasonable redress in the individual case. Having considered that in this case, I remain of the view that £200 represents fair compensation for the non-financial impact of Vanquis's actions on Mr D.

Mr D's asked if Vanquis should be held responsible for the cost of the CCJ being removed from his credit history. Being mindful that the CCJ was ultimately secured by a third-party and not by or on behalf of Vanquis, I don't think it should.

Putting things right

Vanquis should put things right for Mr D in relation to the credit card account from the start, albeit he's had the benefit of the money borrowed and so may need to repay the principal amount. I gather Mr D paid off the outstanding balance in 2020. So, where applicable, Vanquis should:

- Rework Mr D's current credit card balance to ensure that all the interest, fees and charges applied to it from the start are removed.
- If an outstanding balance remains once these adjustments have been made, Vanquis should contact Mr D to arrange a suitable repayment plan for this.
- If no outstanding balance remains, any adverse information should be removed from the credit file.
- If the refund means there's no remaining balance, any extra should be treated as overpayments and returned to Mr D.
- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement†.
- Arrange to either buy back the debt from the third-party it sold it to or liaise with them to ensure the redress set out above is carried out promptly.

Irrespective of the above, Vanquis should also:

- Pay Mr D £200 as compensation for the distress and inconvenience it's caused him.

† HM Revenue & Customs requires Vanquis to take off tax from this interest. Vanquis must give Mr D 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 Vanquis Bank Limited to put things right for Mr D as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 17 February 2023.

Nimish Patel
Ombudsman