DRN-3977119

The complaint

Mr W complains that Cheetwood Financial Limited ("Cheetwood") irresponsibly granted him a credit card he couldn't afford to repay.

What happened

In May 2022 Mr W entered into an agreement with Cheetwood to have access to credit by way of a credit card account. He was given an opening credit limit of £1,250.

Mr W says that Cheetwood didn't complete adequate affordability checks when it opened his credit card account. He says he was already struggling financially at the time.

Cheetwood didn't agree. It said that it carried out a reasonable and proportionate assessment to check Mr W's financial circumstances before granting him the credit.

Our adjudicator recommended the complaint be upheld. She thought Cheetwood acted unfairly in approving the opening of the account.

As Cheetwood didn't agree the complaint has been passed to me 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.

Cheetwood will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Before granting the account, Cheetwood looked into Mr W's financial situation. This included looking at the information about his income and using credit bureau data.

Cheetwood recorded Mr W's annual income as £50,000 with a net monthly income of around £3,100. Mr W had also told Cheetwood he had monthly housing costs of around £350 per month, but didn't give a figure for essential living costs. The checks found that Mr W had existing unsecured credit commitments of £993 per month. Cheetwood noted that Mr W had used around 56% of his available credit, although the figure was 84% if only looking at credit accounts that had been opened in the previous 12 months. The 56% figure meant that Mr W owed around £33,200.

Other than a default about five years earlier, Cheetwood didn't find any adverse records on Mr W's credit file and no other credit taken out in the previous three months. Cheetwood also assessed Mr W's regular outgoings using average costs data, assessing his monthly essential living costs as £762. It then set an opening credit limit based on these factors.

So whilst I think Cheetwood gathered a reasonable evidence about Mr W's income and credit history, and took steps to assess his monthly expenditure, it doesn't automatically mean it made a lending decision that was fair overall. So, I've thought about what the evidence and information showed.

As I've mentioned above, at the point of opening the account, Cheetwood's checks showed that Mr W already owed around £33,200, which worked out at monthly payments of £993 per month. If Mr W used more of his available credit he would have to find more money to make his monthly payments. So, by increasing his use of his available credit upward from the 56% he was using at the time, there was a very real risk that the additional pressure on his monthly costs could lead to a deterioration in his financial circumstances.

I also think it would have been proportionate for Cheetwood to have found out more about Mr W's committed expenditure, such as his living costs. I can't be sure exactly what it would have found out if it had asked. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Mr W's bank statements from the time to gain an indication as to what would most likely have been disclosed. I've also seen that Cheetwood reviewed bank statements Mr W had provided when looking into his complaint, covering around three months prior to the credit being granted. These were from the period immediately before he was granted the card.

Having also reviewed these, I agree with our adjudicator that whilst Mr W's income was consistent with what he told Cheetwood at the time, his living expenses, regular outgoings and credit commitments also needed to be taken into full consideration. Mr W's usual living expenses were around £700 per month and his regular financial commitments other than credit were around £1,050 per month. When added to his existing credit commitments, totalling around £1,500 per month, Mr W's outgoing expenditure each month was typically around £3,200-£3,300. That means, based on his average monthly income, Mr W would be left with less than £100, or even a negative figure, by way of disposable income each month. So I don't agree with Cheetwood's finding that Mr W would have had around £630 in disposable income available each month.

I do agree with our adjudicator that there was some fluctuation in the payments Mr W was making from his bank account, and I've seen that money was being transferred in an out from other accounts, but from what I've seen I don't think that materially changes the overall picture. As things stand, Mr W's monthly net income was barely enough to fund his existing level of regular and committed expenditure. So I think it's very likely that Mr W didn't have enough disposable income to be able to sustainably manage the new card alongside his existing financial commitments. I don't agree that Mr W having since been able meet his minimum payments for the account is enough in itself to show that the level of credit he was granted was affordable.

To summarise, I think it would have been proportionate for Cheetwood to have gained a more thorough understanding of Mr W's financial circumstances before giving him the credit. So I agree that the checks that Cheetwood carried out at the time weren't enough to show that the credit was likely to have been affordable.

It follows that I don't think Cheetwood should have granted Mr W this account.

Putting things right – what Cheetwood needs to do

As I don't think Cheetwood ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mr W should pay back the amounts they have borrowed. Therefore, Cheetwood should:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Mr W along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Cheetwood should also remove all adverse information regarding this account from Mr W's credit file.
- Or, if after the rework there is still an outstanding balance, Cheetwood should arrange an affordable repayment plan with Mr W for the remaining amount. Once Mr W has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires Cheetwood to deduct tax from any award of interest. It must give Mr W a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons I've set out, I'm upholding Mr W's complaint. Cheetwood Financial Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 14 April 2023.
Michael Goldberg
Ombudsman