

The complaint

Miss R complains that Clydesdale Bank Plc (“Clydesdale”), trading as Virgin Money, irresponsibly granted her a credit card she couldn’t afford to repay.

What happened

Miss R entered into an agreement with Clydesdale to have access to credit with a credit card account. The account was opened in August 2019 with a credit limit of £6,700. There were no credit limit increases.

In April 2022, after Miss R got into persistent arrears, the outstanding balance was sold on to a third party.

Miss R says Clydesdale didn’t complete adequate affordability checks when it opened the account. She says if it had, it would have seen that it wasn’t affordable for her. Miss R also says Clydesdale didn’t do enough to help her when she got into difficulty or warn her about the impact it might have on her credit file.

Clydesdale says it carried out the proper credit checks before granting her the credit. It also says it acted appropriately when she got into difficulties with paying her account.

Our adjudicator said that Clydesdale shouldn’t have granted Miss R the credit because she didn’t have enough disposable income to afford the card.

As Clydesdale disagrees with our adjudicator’s finding, the complaint has come 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.

Clydesdale 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 Miss R could afford to repay what she 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 Clydesdale should fairly and reasonably have done more to establish that any lending was sustainable for Miss R. These factors include:

- the *lower* a Miss R’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.

Clydesdale says it looked at the information Miss R included in her application as well as checking her credit file before granting her the account. Miss R told Clydesdale her annual gross income was £32,000. This works out to represent a monthly net income of around £2,100. Clydesdale's credit check showed she had around £9,500 in unsecured debt to other creditors elsewhere. I've also seen that Miss R had requested to make balance transfers totalling around £5,500, using up most of the available credit on the account. So if Miss R was to be able to make sustainable monthly payments to reduce her debt, it's likely she would be using up a significant proportion of her income. I therefore think Clydesdale ought to have carried out a better search in order to gain a more thorough understanding of Miss R's financial circumstances before it granted her the credit limit.

I also think it would have been proportionate for Clydesdale to have verified Miss R's financial circumstances, for example by requesting copies of her bank statements. I've seen bank statements for Miss R's current account from the three months leading up to the lending decision. Having noted the points raised by Clydesdale in response to our adjudicator's view, I asked Miss R to provide us with some further information. I understand Miss R doesn't wish these to be shared with Clydesdale, so I have looked at them alongside the bank statements she previously sent us.

The statements show that Miss R was making very heavy use of gambling sites which, when taken alongside her regular monthly expenses and existing credit, meant her outgoing expenditure substantially outstripped her monthly income. In June 2019 she spent around £5,500 on gambling, in July around £6,300 and in August around £2,050. Whilst her gambling expenditure was being funded in part by drawing funds from a separate ISA account, it wasn't enough on its own to cover what she was spending on gambling as well as the existing credit and monthly household costs Miss R needed to find. In any event I've seen this separate account had been used up by early September 2019. I think all of this amply demonstrates that Miss R didn't have enough disposable income to sustainably afford the additional borrowing and opening credit limit provided by the card. If Clydesdale had made better enquiries into Miss R's financial situation it would have seen this. It follows that I don't think Clydesdale should have granted Miss R the account.

Did Clydesdale act unfairly or unreasonably in some other way?

Miss R is also unhappy about the way Clydesdale responded when she got into difficulties with her arrears as well as the information it gave her about the potential impact on her ability to get further credit.

I've seen that in early 2022, Clydesdale's customer records show that Miss R was able to agree a number of arrangements with the aim of helping her manage the outstanding amount she had on the card, including payment holidays. I can see from these that Miss R

was told on several occasions that that being in arrears could still lead to adverse markings being added to her credit file. For example, I see Clydesdale told her this when agreeing a 'breathing space' for her account between May and July 2022. I've also seen that Clydesdale told Miss R that arrears and interest will continue to be added to her account. In August and September 2022 Clydesdale wrote to Miss R to let her know that the persistent arrears on her account could affect her credit file. And in October 2022 Clydesdale sent Miss R an income and expenditure form to complete but it was not returned.

From all the evidence and information I've seen, I'm satisfied that Clydesdale did enough to make Miss R aware of the potential consequences of building up arrears on her account.

Putting things right – what Clydesdale needs to do

Clydesdale shouldn't have granted Miss R the opening credit limit of £6,700 on 31 August 2019. Clydesdale therefore needs to do the following:

- Rework Miss R's account to ensure that all interest and charges should be removed from the account for balances over £6,700. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made, Clydesdale should contact Miss R to arrange an affordable repayment plan for the account. Once Miss R has repaid the outstanding balance, it should remove any adverse information recorded on Miss R's credit file from 31 August 2019 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss R, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Clydesdale should also remove any adverse information from Miss R's credit file from 31 August 2019.

†HM Revenue & Customs requires Clydesdale to take off tax from this interest. Clydesdale must give Miss R a certificate showing how much tax it's taken off if she asks for one.

My final decision

I therefore uphold this complaint and require Clydesdale Bank Plc to pay compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 23 August 2023.

Michael Goldberg
Ombudsman