

## The complaint

Miss S complains that Clydesdale Bank Plc, trading as Virgin Money ("Virgin"), irresponsibly granted her a credit card she couldn't afford to repay.

## What happened

Miss S entered into an agreement with Virgin to have access to credit with a credit card account. The account was opened in October 2019 with a credit limit of £2,100. The credit limit was later increased to £2,600, in January 2022.

Miss S says Virgin didn't complete adequate affordability checks when it opened the account and shouldn't have gone on to increase her credit limit, worsening her financial position.

Our adjudicator said that Virgin shouldn't have increased Miss S's credit limit in January 2022 as by that point it's likely that the account was no longer affordable for her

As Virgin has not formally responded to our adjudicator's view partially upholding the complaint, which was issued in March, 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.

Virgin 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 S 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 Miss S'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 Virgin should fairly and reasonably have done more to establish that any lending was sustainable for Miss S. These factors include:

- the *lower* a Miss S'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.

#### *Account Opening – October 2019*

Before granting the account Virgin says it looked into Miss S's financial situation, but it's only been able to supply us with a limited amount of information about the credit check it carried out at the time. I've seen that Miss S provided Virgin with details about her income and occupation when making her application, showing her as having an annual income of around £17,000. Miss S has also told us that at the time she was living with her parents and not paying any rent, council tax or utility charges.

The credit check Virgin carried out would have given information about how much, if any, Miss S already owed to other creditors. I can see also that Virgin recorded her as owing around £680 to other creditors. But I can't see what if any details Virgin had discovered about her previous credit history.

We've seen Miss S's bank statements from the time of the account opening. Her net monthly income is consistent with what she said about her annual income, working out at around £1,200 net per month. And I agree with our adjudicator that her typical monthly expenditure looks to have been around £740. Based on what I've seen, I therefore think Virgin could have carried out better checks before granting the credit. Verifying Miss S's income, for instance, would have been a proportionate way for Virgin to establish that the opening credit limit would be affordable. I also think finding out more about Miss S's level of monthly committed expenditure, such as regular monthly outgoings and other credit repayments, would also have helped Virgin to gain a more thorough understanding of Miss S's financial circumstances before agreeing to open the account. I say this having also noted that the opening credit limit of £2,100 would have taken up a significant proportion of her disposable income, once the whole limit was used.

#### *Credit limit increase – January 2022*

I think it would have been proportionate for Virgin to have verified Miss S's financial circumstances before granting the increase to £2,600. One way of doing this would be to check copies of her bank statements. I've reviewed three months of Miss S's bank statements leading up to the lending decision.

I've seen that by this point Miss S's monthly net income had gone up to around £1,500 each month. Miss S told us she was by then renting a property as a tenant so her housing costs had gone up considerably, to the extent that she was now having to find an additional £850 per month. She was also having to pay for other essential such as food, travel, insurance and car costs, as well as paying towards other credit, including store and credit cards. I've also noted from Miss S's credit report that she took out two new loans during 2021, one payable over just over three years and the other payable over two years.

Virgin has also confirmed that Miss S was fully utilising – and sometimes exceeding -her level of available credit in the months leading up to the credit limit increase. She was also making regular use of her overdraft. Given that her credit limit had now been increased, I think there was a significant possibility that the limited disposable income she was likely to be left with – which I broadly agree would be around £160 - would end up being used to go towards the increased use of her credit.

So I am in agreement with our adjudicator that, whilst Miss S was now earning a higher monthly income, the addition of housing costs, added debt from new loans and increased

credit usage would leave her with a negligible amount of disposable income. If she went on to use the additional credit she was given making minimum payments, there would be a real possibility she would be left with no disposable income at all. I think this all demonstrates that Miss S would be unable to sustainably afford the additional borrowing provided by the credit limit increase.

### **Putting things right – what Virgin needs to do**

Virgin shouldn't have increased Miss S's credit limit from £2,100 to £2,600. Virgin therefore needs to do the following:

- Rework Miss S's account to ensure that all interest and charges should be removed from the account for balances over £2,100, being the previous credit limit increase. 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, Virgin should contact Miss S to arrange an affordable repayment plan for the account. Once Miss S has repaid the outstanding balance, it should remove any adverse information recorded on Miss S's credit file from January 2022.

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 S, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Virgin should also remove any adverse information from Miss S's credit file from January 2022.

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

### **My final decision**

Your text here I therefore partially 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 S to accept or reject my decision before 26 July 2023.

Michael Goldberg  
**Ombudsman**