

The complaint

Mrs W, who is represented by a third party, complains that Barclaycard UK PLC, trading as Barclaycard ('Barclaycard'), irresponsibly granted her a credit card she couldn't afford to repay.

What happened

In June 2012 Mrs W entered into an agreement with Barclaycard to have access to credit by way of a credit card account. Her opening credit limit was £7,000, which was later increased in October 2013 to £8,500, then in June 2014 to £9,500 and finally in May 2016 to £10,000.

Mrs W says that Barclaycard didn't complete adequate affordability checks when it opened her credit card account and that she has been financially disadvantaged as a result.

Barclaycard didn't agree. It said that it carried out a reasonable and proportionate assessment to check Mrs W's financial circumstances before granting her the credit card account and each of the credit limit increases.

Our adjudicator recommended the complaint be partially upheld. He thought Barclaycard could have carried out better checks for the account opening and credit limit increases and went on to say it shouldn't have given her the second or third credit limit increases.

As Barclaycard hasn't responded to our adjudicator's finding, 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.

Barclaycard 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 Mrs W 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 Barclaycard should fairly and reasonably have done more to establish that any lending was sustainable for Mrs W. 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.

Account opening

Before granting the account, I would have expected Barclaycard looked into Mrs W's financial situation and granted her a credit limit of £7,000. Barclaycard says it no longer holds full records from the account opening, which isn't unusual given the time that's passed. For a credit limit at this level I would have expected Barclaycard to look into Mrs W's financial situation, including her existing credit commitments, but I simply don't know if it did that. I also can't say what it would have found as Mrs W hasn't been able to send us any information about her finances at the time.

It follows that I agree that it would have been proportionate for Barclaycard to have looked into Mrs W's financial situation before each lending decision, but I can't say what it would have found at the time of the account opening.

First credit limit increase

Looking at the first credit limit increase, I agree with our adjudicator that it would have been proportionate for Barclaycard to have taken steps to find out about any changes to Mrs W's income and expenditure since the account opening. Mrs W has provided us with bank statements that I broadly agree show her monthly income to be around £2,500 and her typical committed expenditure each month as around £1,650. So I agree that based on the new credit limit of £8,500, it looks likely that Mrs W would be able to continue making regular sustainable repayments to the account.

Second and third credit limit increases

Turning to the later credit limit increases, I have concerns that the increased credit limit in June 2014 to £9,500 was likely to be unsustainable. I say this given that the bank statements I've seen show that Mrs W's monthly income had reduced to around £1,970 each month. And whilst her typical committed expenditure was around £1,440 each month, including her living costs and credit commitments, I don't think that her available disposable income after that would leave her with enough to make sustainable repayments. To give an example, were she to use her full credit limit at this point, Mrs W would have had to find £475 each month to make a sustainable monthly repayment representing 5% of her existing balance.

So I agree that by granting Mrs W the second credit limit increase – and it follows also the later credit limit increase to £10,000 in May 2016 - Mrs W would likely be left with very little, if any, disposable income with which to sustainably repay her card alongside the daily costs she would have to meet, outside of her existing credit obligations and other committed expenditure.

It follows that I agree with our adjudicator that, based on what I've seen, Barclays didn't make a fair lending decision when it granted the second credit limit increase as it was unsustainable for Mrs W.

I therefore don't think Barclaycard should have increased Mrs W's credit limit beyond the first credit limit increase of £8,500.

Putting things right – what Barclaycard needs to do

- Rework Mrs W's account to ensure that from June 2014, onwards interest is only charged on balances up to the total credit limit of £8,500, (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed;
- Having noted that Mrs W's balance never exceeded the £8,500 credit limit, no redress is due on the account;
- In any event, Barclaycard should remove any adverse information recorded on Mrs W's credit file from June 2014 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 Mrs W, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Barclaycard should also remove any adverse information from Mrs W's credit file from June 2014.†

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

My final decision

For the reasons set out, I'm partially upholding Mrs W's complaint. Barclays Bank UK PLC, trading as Barclaycard, 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 Mrs W to accept or reject my decision before 17 August 2023.

Michael Goldberg

Ombudsman