

The complaint

Mr B complains that Clydesdale Bank Plc (trading as Virgin Money) was irresponsible to lend to him.

What happened

Mr B applied for a credit card with Virgin Money on 14 July 2017 and was given the following credit limits:

Date	Amount
July 2017	£4,300
May 2019	£8,600

Mr B says that at the time he opened his account he already had a number of credit cards and an increasing overdraft. He adds that he was only making minimum payments and so his limit should not have been increased. Mr B says his debt began to spiral in 2017/2018 and he was struggling to repay other debts and car finance from his net income. He says this had a serious impact on his mental health resulting in him being hospitalised in May 2020.

Virgin Money did not respond to the complaint.

Our adjudicator recommended the complaint should be upheld. He said that, in the absence of any information from Virgin Money, he had been unable to determine whether it made a fair lending decision. However, based on other information he had seen, our adjudicator found Mr B already had significant credit commitments and he didn't consider Virgin Money should have opened the account. He said Virgin Money should refund all interest and charges, plus 8% if this results in a credit balance on Mr B's account.

Virgin Money responded to say, in summary, that Mr B's application met its lending criteria, and an appropriate credit limit was assigned. It said it had not received any information about Mr B being in financial difficulties before his complaint in June 2022 and that his account was up to date with no late or missed payments in the last seven years. It added that Mr B had been paying more than the minimum since August 2018 and he met all the criteria for an automatic increase in May 2019. Nevertheless, it offered Mr B a £25 goodwill gesture and waived interest for the next two months.

Provisional findings

I issued a provisional decision to Mr B and to Virgin Money on 31 May 2023. I've summarised my findings below:

- I wasn't satisfied Virgin Money's checks went far enough when it opened the credit card account because of his existing credit commitments and the open-ended nature of the new credit;
- I found it likely that proportionate checks would have indicated:
 - Mr B was living with his parents and paid no rent;
 - His regular expenditure was around £270;
 - Mr B's bank balance did not fall below £1,300 in the lead up to the application;
 - He had over £1,000 for other living costs, including food and travel;
- So if Virgin Money had carried out proportionate checks, I didn't think it would have found that the initial lending was unsustainable for Mr B;
- At the time of the credit limit increase I didn't find Virgin Money carried out sufficient checks, especially as Mr B had been making minimum payments and he'd been notified about being in persistent debt nine months earlier;
- As Virgin Money confirmed that having a persistent debt marker on an account precludes it from receiving a credit limit increase, I didn't find it made a fair lending decision in this regard.

In summary, my provisional decision was that I didn't find Virgin Money was irresponsible to have approved the initial lending, but I didn't consider the credit limit should have been increased when it was.

Virgin Money responded to say that Mr B was selected for a credit limit increase in February 2019 and was in its "low risk" segment then and still in good standing in May 2019 when the limit was increased. It said Mr B hit stage 2 of persistent debt in February 2021, which escalated to stage 4 by August 2022, but he always had a good payment history and the highest balance on his account was below £4,300.

Mr B responded to say, in summary, that:

- He was not living at home with his parents at the time of the lending, but was paying for university accommodation up until September 2017, and also had to commit to paying £700 per month (plus a £700 deposit and bills) when he moved for a new job at the end of July 2017;
- He needed to commit a further £250 per month to pay off an overdraft in August and September 2017;

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.

I acknowledge Virgin Money says Mr B was selected for a credit limit increase in February 2019, but this was six months after he'd received a persistent debt notification as a result of the minimum payments on his account. I accept that he didn't move to stage 2 of persistent debt until February 2021, but I find that having a persistent debt marker on his account should have precluded him from the increase based on Virgin Money's own guidance.

With regard to Mr B's comments, I've considered what he's said about his housing. I accept he was at university before the credit application, but the last rental payment was on 8 May 2017. As Mr B told Virgin Money he was living with his parents, paying no rent, I can't see proportionate checks would have found otherwise as there did not appear to be any housing costs in the lead up to the credit application. Equally, as Mr B's new rental agreement did not start until after the application, and he didn't tell Virgin Money about upcoming changes, it is not reasonable to expect Virgin Money to have factored that into its affordability calculations.

I also do not consider there was any way Virgin Money could have known that Mr B was going to have to repay £250 per month in August and September 2017 towards an overdraft, especially as Mr B himself said he'd forgotten about its existence.

So, in conclusion, I have considered the further information provided by both Virgin Money, and Mr B, but I'm not persuaded to depart from my provisional decision.

My final decision

My decision is that I uphold this complaint. Clydesdale Bank Plc (trading as Virgin Money) should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £4,300 from May 2019.
 - If the rework results in a credit balance, this should be refunded to Mr B along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Virgin Money should also remove all adverse information regarding this account from Mr B's credit file.
 - Or, if after the rework there's still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mr B for the remaining amount. Once Mr B has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. It must give Mr B a certificate showing how much tax has been taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 26 July 2023.

Amanda Williams

Ombudsman