

The complaint

Ms S complains that Clydesdale Bank Plc (trading as Virgin Money) was irresponsible to lend to her.

What happened

Ms S applied for a credit card with Virgin Money on 5 December 2021 and was approved for a credit limit of £3,200.

Ms S says that she had a County Court Judgement (CCJ) and numerous other loans and credit cards when she applied for the Virgin Money card. She says she was already struggling to make her priority payments and her benefits were being used on other credit repayments. Ms S adds that she is in poor health, both physically and mentally, and has had to borrow money from family members.

Virgin Money says that it reviewed the information provided by Ms S at the time of her application and used information from credit reference agencies. It says the application met its lending criteria and an appropriate credit limit was assigned. However, Virgin Money did apologise for the delay in responding to Ms S's complaint and credited £50 to her account.

Our investigator recommended the complaint should be upheld. He said that Virgin Money's checks showed Ms S already had significant credit commitments and he considered it would have been proportionate to get a better understanding of her financial situation before lending. Our investigator found that Ms S's disposable income was around £30 at the time of the lending, and she could not sustainably afford the repayments on the credit card. He said Virgin Money should refund all interest and charges, plus 8% if this results in a credit balance on Ms S's account.

Virgin Money responded to say, in summary, that all the calculated indices were considered an acceptable risk, it had validated the income figure provided, there were no indicators of financial difficulty on Ms S's credit file, and it calculated existing credit payments of £380. Virgin Money added that it used an estimate for essential expenditure, using a statistical average, and that Ms S declared she was spending nothing on rent. It says bank statements were not requested as the application passed its automatic assessment. Virgin Money also notes that Ms S requested a balance transfer of £1,681 as part of the application.

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 need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Ms S's case, I have considered the following questions:

- Did Virgin Money complete reasonable and proportionate checks when assessing Ms S's credit limit to satisfy itself that she would be able to repay the credit in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?
- Did Virgin Money make a fair lending decision?
- Did Virgin Money act unfairly or unreasonably in some other way?

I've seen evidence to show Virgin Money asked about Ms S's income and housing costs, as well as checking her credit file. I acknowledge the credit file showed no adverse information, but I'm not satisfied those checks went far enough. I say that because:

- The credit card was an open-ended account and so Virgin Money needed to ensure any repayments were sustainably affordable long term;
- Based on Virgin Money's checks, Ms S was already committed to repaying over 25% of her net income on credit;
 - Its calculations showed a combined monthly credit commitment of £380 on loans and credit cards;
 - This rose to around 32% with the new credit card limit;
- With limited disposable income, I consider it would have been proportionate to verify Ms S's regular expenditure, rather than using an estimate.

Ms S has provided bank statements from the months leading up to the lending, and I have looked at these as a reasonable proxy for what proportionate checks may have shown Virgin Money.

- Ms S's income was roughly in line with the figure Virgin Money used in its original calculations – the statements show monthly income of £1,577;
- There was regular expenditure on bills, communications, insurance and car tax of almost £500 per month;
- Ms S spent over £100 per week on food;
- As well as the credit commitments identified by Virgin Money, Ms S had taken out a £7,000 loan less than a month earlier, for which repayments were £177 per month;

So, if Virgin Money had carried out proportionate checks, I think it would have found that further lending was unsustainable for Ms S. She had very little disposable income and was already committed to paying 35% of her income to credit repayments. With the new credit card, this commitment would have risen to over 40%, even including the balance transfer.

In summary, I find Virgin Money was irresponsible to have approved the lending, but I can't see it acted unfairly or unreasonably in any other way and it has already compensated Ms S for the delay in responding to her complaint.

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 the account since it was opened;
 - If the rework results in a credit balance, this should be refunded to Ms S 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 Ms S's credit file.
 - Or, if after the rework there's still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Ms S for the remaining amount. Once Ms S has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 20 September 2023.

Amanda Williams
Ombudsman