

The complaint

Mr W says Barclays Bank UK PLC, trading as Barclaycard, irresponsibly lent to him.

What happened

Barclaycard provided Mr W with a credit card with a limit of £400 in February 2022. The account was a credit builder card and the limit could not be increased in the first two years.

One of our investigators reviewed what Mr W and Barclaycard had told us. And he concluded that whilst Barclaycard's checks were proportionate, it had not made a fair lending decision. So he recommended that Mr W's complaint be upheld.

Barclaycard disagreed and asked for an ombudsman to look at the complaint.

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.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr W's complaint.

Barclaycard needed to make sure it didn't lend irresponsibly. In practice, what this means is Barclaycard needed to carry out proportionate checks to be able to understand whether Mr W could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Barclaycard says it agreed to Mr W's application after it obtained information on his income and his disposable income. And carried out a credit search. It says the information obtained indicated that Mr W would be able to make the low monthly repayments due for this credit card. On the other hand Mr W says that giving the card was irresponsible, it has caused him financial and mental stress which has led to anxiety and depression.

I've considered what the parties have said. I can see that Barclaycard gathered certain information on Mr W's circumstances before lending. This included his income and outgoings including existing credit commitments. It carried out a credit check to understand his credit history. From these checks combined Barclaycard concluded Mr W had £241.99 monthly disposable income and so could afford to take on this card.

Given the low limit I find these checks were proportionate but I am not satisfied Barclaycard made a fair lending decision based on the results. I'll explain why.

The credit check showed that during 2021 Mr W had opened six loans, and two of these had missed payments in recent months. In September he opened a new loan as he settled another, suggesting he was borrowing to repay. And the terms of the loans suggests they were most likely high-cost credit, and at least two short-term. So, overall, I think there were signs that Mr W was under financial strain and so there was a high risk Mr W would need to borrow to repay any additional credit he took on, or suffer some other financial harm. And Barclaycard was obliged to consider this, not just the pounds and pence affordability.

Barclaycard argues Mr W managed his account well – but it does not know how he did this and how he was funding his repayments so this does not change my conclusion.

It follows I find Barclaycard was wrong to lend to Mr W.

Putting things right

It is fair that Mr W repay the capital he borrowed as he has had benefit of that money. But it is unfair he pay interest and charges on a card that should not have been given to him.

So Barclaycard should:

- Rework Mr W's account to remove all interest, fees and charges
- If this results in a credit balance on the account, then this should be refunded to Mr W along with 8% simple interest* on the overpayments from the date they were made to the date of settlement. In this case, Barclaycard should remove any adverse information reported on Mr W's credit file about this account; or
- If this results in an outstanding balance remaining on this account Barclaycard needs to ensure that Mr W is only liable for this adjusted balance and arrange an affordable repayment plan with him. Once Mr W has cleared the outstanding balance, any adverse information recorded about this account should be removed from his credit file.

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

My final decision

I am upholding Mr W's complaint. Barclays Bank UK PLC, trading as Barclaycard, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 8 November 2023.

Rebecca Connelley
Ombudsman