

The complaint

Mr W has complained that Clydesdale Bank PLC, trading as Virgin Money ("Clydesdale"), irresponsibly lent to him.

What happened

Mr W opened a credit card account with Clydesdale in September 2017 with an initial credit limit of £2,700. His credit limit was never increased.

Mr W says that Clydesdale acted irresponsibly by providing him with the credit card. He says if Clydesdale had done adequate checks on his situation it would have seen that he already had a high level of indebtedness and wouldn't be able to repay his balance in a reasonable length of time.

Clydesdale said it didn't lend irresponsibly to Mr W and that it did all the necessary checks before it lent to Mr W.

Our investigator thought that Mr W's complaint should be upheld. Clydesdale didn't agree, so the complaint has been passed to me to decide.

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 set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Mr W's complaint.

Having done so, I have come to the same decision as our investigator about Mr W's complaint. I will explain why.

Clydesdale 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 Mr W could afford to repay what he 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 Mr W's income and expenditure.

Certain factors might point to the fact that Clydesdale should fairly and reasonably have done more to establish that any lending was sustainable for Mr W. These factors include things like understanding Mr W's income, the total amount Mr W borrowed, and the length of time Mr W had been indebted.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

What all of this means is that a less detailed affordability assessment, without the need for verification, is far more likely to be fair, reasonable and proportionate where the amount to be repaid is relatively small, the consumer's financial situation is stable, and they will be indebted for a relatively short period.

Clydesdale has provided a copy of what it saw when it completed checks on Mr W's application. This showed that Mr W had no recent adverse information on his credit file. Mr W declared a gross annual income of £18,000 which is a net income each month of about £1,293. Clydesdale's own assessment was that Mr W had a disposable income of around £558 each month. Clydesdale noted that Mr W had unsecured debt of £7,289 including a revolving debt (for example, a credit card or shopping account) of £962. In total, Mr W already had borrowing of nearly six months' net income. Other data showed that Mr W had at least £7,201 of active revolving credit available to him – so he already had potential to borrow even more than he already was.

I think on the basis of Mr W's income compared to his existing borrowing and his existing borrowing potential that it would have been reasonable and proportionate for Clydesdale to do further checks to verify Mr W's financial circumstances before it agreed to lend more to him.

There is no prescriptive list of checks that a business should do, and I can't know what Clydesdale would have chosen to do. But in the absence of any other information, I think it's reasonable to use the information I do have.

Mr W has provided copies of his bank statements from around the time of his application. Our investigator had already seen some bank statements, but I asked to see several months more. These showed that Mr W was using his overdraft at all times. He carried a permanent overdraft of around £4,600 which never reduced significantly. Overdraft borrowing is expensive and is intended to be a short term measure to meet short term needs. It can be called in at any time, unlike other types of borrowing. Mr W was receiving a variable income of between £1,000 and £1,200 a month. His essential expenditure was relatively low, but his bank statements showed that the cause of his financial difficulties was his gambling. On some days he was making dozens of bets and there was rarely a day when he made fewer than five bets. His winnings were modest and very irregular.

I think if Clydesdale had sought further information about Mr W's financial circumstances it would have realised that Mr W was already in financial difficulty, that he was vulnerable by way of his problematic gambling, and that his situation was getting worse. If it had realised this, I don't think Clydesdale would have lent to Mr W.

Taking into account all the information available to me, I think Clydesdale didn't do reasonable and proportionate checks when it lent to Mr W and I think Mr W lost out as a result.

Putting things right

As I don't think Clydesdale ought to have opened the credit card account I don't think it's fair or it to be able to charge and interest or other charges under the credit agreement. But I think Mr W should pay back the amount he has borrowed. Therefore, Clydesdale should:

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

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

My final decision

I uphold Mr W's complaint and direct Clydesdale Bank Plc trading as Virgin Money to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 12 June 2024.

Sally Allbeury
Ombudsman