

The complaint

Mr P complains that credit limit increases offered by Capital One (Europe) plc, and a second credit card it lent him, were unaffordable.

What happened

Mr P took out a credit card with Capital One in November 2018, with an initial credit limit of £1,000.

In February 2019, Capital One offered to increase the limit of this credit card to £2,000. The limit increase came into place in April 2019.

In March 2019, Capital One offered Mr P a second credit card with a £300 credit limit.

In December 2019, Capital One offered to increase the limit of the first credit card to £2,500.

In 2021, the first credit card was defaulted and the debt was sold to a third party.

In 2023, Mr P complained. He said he thought Capital One agreeing to lend the initial limit of £1,000 was reasonable – but he thought it had acted irresponsibly offering the credit limit increases, and the second credit card.

In its final response, Capital One said it thought it had acted reasonably and responsibly in offering the credit limit increases.

One of our Investigators looked into things. He thought that Capital One should have conducted further checks to verify Mr P's income and expenditure before agreeing the credit limit increase to £2,000 on the first credit card, and offering the second credit card, in such a short space of time. But, having considered Mr P's bank statements, he thought that had Capital One conducted further checks it would still have considered the lending to be sustainable and affordable for Mr P.

The Investigator thought Capital One conducted proportionate checks before agreeing the second credit limit increase in December 2019. So he didn't uphold the complaint.

Mr P disagreed. He explained that he had a gambling addiction, and had relapsed around March 2019. He thought Capital One should have conducted its checks nearer to the time the limit increase came into effect.

I sent Mr P and Capital One a provisional decision on 11 December 2023, explaining I intended to uphold the complaint. In my provisional decision, I said:

"I've considered the relevant rules and guidance on responsible lending set by the regulator, laid out in the consumer credit handbook (CONC). In summary, these say that when Capital One first offered each credit card – and each time it offered a credit limit increase – it needed to complete reasonable and proportionate checks to satisfy itself that Mr P would be able to repay the debt in a sustainable way and in a reasonable period of time."

Mr P has told us he thinks that the original credit card limit of £1,000 was affordable for him. So I haven't considered Capital One's initial decision to lend. I've focused on the later limit increases, and the opening of the second credit card.

Capital One said that in offering to increase the limit from £1,000 to £2,000 in February 2019, it considered the conduct of the account, as well as information from external credit reference agencies.

When Mr P applied for the credit card in November 2018, he'd declared that his income was £30,000. The information Capital One considered showed that he had around £8,300 credit card debt elsewhere, and around £6,400 in other borrowing.

In line with our Investigator, I think that the increase on the proposed limit increase was significant – doubling the credit available to Mr P. I don't think the checks Capital One conducted were proportionate. I think it should have taken further steps to verify his income and expenditure, such as considering his bank statements.

I've considered the bank statements Mr P provided to our Investigator for November 2018 – January 2019. These verify what Mr P declared about his income, giving him net monthly income of just under £2,000 a month. They also show payments towards his other credit commitments and living expenses of around £1,350.

To repay the full proposed credit limit of £2,000, Mr P would have needed to make repayments of around £112 a month. So, based on his income and expenditure at the time, I think that was affordable.

However, Mr P's bank statements also show significant gambling transactions during the period – of at least £340 a month, and of £6,000 in December 2018. I think that, had Capital One conducted proportionate checks, it should have had cause for concern that payments towards the increased credit limit would be sustainable for Mr P – and I think it wouldn't have gone on to offer the increased limit.

Mr P went on to apply for a further credit card, just a couple of weeks later. I think that if Capital One had conducted proportionate checks prior to offering the credit limit increase on the first credit card in February 2019, it also wouldn't have offered him the second credit card account as it would have had concerns that the repayments weren't sustainable.

For these reasons, I am upholding this complaint.

My provisional decision

My provisional decision is that I uphold this complaint. To put things right, Capital One should liaise with the third party debt collection agency to transfer the debt under the first credit card account back to themselves. It should then:

- *Rework the first credit card account, removing all interest and charges applied to balances over £1,000; and rework the second credit card account, removing all interest and charges.*
- *If the reworks result in a credit balance, this should be refunded to Mr P along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Capital One should also remove all adverse information regarding the credit cards from Mr P's credit file.*

- *Or, if after the rework there is still an outstanding balance, Capital One should arrange an affordable repayment plan with Mr P for the remaining amount. Once Mr P has cleared the outstanding balance, any adverse information recorded in relation to the accounts should be removed from his credit file*

HM Revenue & Customs requires Capital One to deduct tax from any award of interest. It must give Mr P 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 the tax.

Mr P accepted my provisional decision.

Capital One disagreed with my provisional decision. In summary, it said that it blocked transactions from known gambling websites, and Mr P didn't have any cash withdrawals on the credit card prior to the credit limit increase. It noted that our Investigator had thought the credit limit increase was affordable. Capital One also said it did not agree that requesting bank statements was a proportionate further check, given the conduct of the account and the information sourced from external credit reference agencies. So Capital One did not think Mr P's gambling would have been visible to it.

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.

Under the rules set by the regulator in the consumer credit handbook (CONC), Capital One needed to complete proportionate checks prior to offering the credit cards, and before offering each credit limit increase, to satisfy itself that Mr P would be able to repay the debt in a sustainable way and in a reasonable period of time.

As I explained in my provisional decision, I do not think the checks that Capital One conducted prior to offering the credit limit increase in February 2019 were proportionate. I say that because of both the amount of the increase – £1,000 – and the differential between the proposed and existing limits, as well as Mr P's income and existing credit commitments.

I have carefully considered Capital One's comments, and I continue to think that it would have been proportionate for it to verify Mr P's income and expenditure – as did our Investigator. I think it should have done that by considering his bank statements.

Had Capital One verified Mr P's income and expenditure by considering his bank statements, it would have seen evidence of Mr P's gambling. Although, as I explained in my provisional decision, I think that – on the face of things – the payment required to repay the full credit limit within a reasonable period of time appeared affordable, I think that Capital One should have had concerns about whether the payments would not only be affordable but sustainable for Mr P on an ongoing basis.

So, on balance, taking everything into account, I am upholding this complaint.

Putting things right

My decision is that I uphold this complaint. To put things right, Capital One should liaise with the third party debt collection agency to transfer the debt under the first credit card account back to themselves. It should then:

- Rework the first credit card account, removing all interest and charges applied to balances over £1,000; and rework the second credit card account, removing all interest and charges.
- If the rework results in a credit balance, this should be refunded to Mr P along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Capital One should also remove all adverse information regarding the credit cards from Mr P's credit file.
- Or, if after the rework there is still an outstanding balance, Capital One should arrange an affordable repayment plan with Mr P for the remaining amount. Once Mr P has cleared the outstanding balance, any adverse information recorded in relation to the accounts should be removed from his credit file

*HM Revenue & Customs requires Capital One to deduct tax from any award of interest. It must give Mr P 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 the tax.

My final decision

My final decision is that I uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 6 March 2024.

Frances Young
Ombudsman