

The complaint

Miss D says Vanquis Bank Limited irresponsibly lent to her.

What happened

Miss D applied for a credit card in August 2020. It was approved with a limit of £500 and she was given two subsequent credit limit increases. The first was in August 2021 to £850 and the second in June 2022 to £1,450.

Miss D says the lending was irresponsible, it has put her into further debt and caused a lot of stress to the extent she now needs medication. She wants Vanquis to clear her balance and close her account.

Vanquis says it carried out proportionate checks that considered Miss D's financial position. Each time they showed Miss D had a healthy level of disposable income and could afford the credit.

Our investigator did not uphold the complaint. She said the checks were proportionate at application and at the time of the first limit increase and the lending decisions were fair. But further checks were needed for the second limit increase, however these would most likely have shown the additional credit was affordable for Miss D.

Miss D disagreed and asked for an ombudsman's review.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send in any comments by 24 January 2024.

Extract from my provisional decision

The initial lending decision and limit of £500

Vanquis asked Miss D about her annual income and her employment status. It used national statistics to estimate Miss D's living costs. It completed a credit check to understand her existing debt and her credit history. Based on the results of these checks it concluded Miss D could afford a £500 opening credit limit.

I think these checks were proportionate given the amount and type of credit offered. And there was nothing in the information gathered that ought to have concerned Vanquis at this stage. Miss D declared a gross annual income of £20,000 and Vanquis' affordability assessment showed Miss D had over £600 monthly disposable income. She had seven active credit accounts with a total balance of £4,900. There was no significant adverse information on her credit file – the one account that had been two months in arrears about six months prior had been brought up to date. So in the round I think Vanquis made a fair lending decision in August 2020.

The credit limit increases

Vanquis's submission suggests that its decision to increase the credit limit on Miss D's account was largely based on reviewing her spending and payment behaviour on both its card, and external credit. It says it also carried a revised income and expenditure assessment. But it's not clear from its submission if or how it sourced up-to-date information on Miss D's income – or whether it relied on the data she declared at application. I have some concerns with this overall approach as it's not clear to me why a borrower who is able to successfully manage a given credit limit can then automatically be deemed, without better checks at the time of the decision, to be able to successfully manage a higher limit. So I don't think solely these types of checks were sufficient, particularly as Miss D had incurred two over limit fees and one late payment fee. To be clear, I am not saying these fees were reasons not to increase Miss D's limit, but they are reasons why better checks were needed.

In addition, Vanquis knew that at the point of application that Miss D was running three overdrafts across three current accounts. That was another reason it was important to check that her financial position was stable before extending further credit.

In cases like this we look at the complainant's bank statements from the months prior to the increase(s) to understand what Vanquis would have learnt had it carried out a fuller financial review. I am not saying Vanquis needed to do exactly this but it is a reliable way for me to understand what better checks would most likely have shown.

The statements show at the time of both increases Miss D was persistently reliant on her overdraft. Her primary account was never in credit. She was not using the product as it was intended to support short term emergency borrowing. This means the repayment of any additional credit would be funded by her overdraft – so in essence she would be borrowing to repay. And as Vanquis knows that does not meet the regulatory requirements for a lender to ensure repayments are made sustainably. I think better checks would have shown Vanquis that there was a high risk that extending more credit to Miss D would be financially harmful as she did not have the level of disposable income Vanquis had estimated at the time of either increase.

It follows I think Vanquis was wrong to increase Miss D's credit limit in both August 2021 and June 2022.

I then set out what Vanquis would need to do if I went on to uphold Miss D's complaint.

Miss D accepted my provisional decision, Vanquis did not reply.

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.

Our approach to unaffordable/irresponsible lending - including all the relevant rules, guidance and good industry practice - is set out on our website and I have followed it here. As neither party sent in any comments or new information for me to consider, I have no reason to change the findings or outcome I set out in my provisional decision.

It follows I find Vanquis was wrong to increase Miss D's credit limit beyond the £500 that it allocated at the point of application.

Putting things right

As I don't think Vanquis should have increased Miss D's credit limit above £500, I don't think

it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Miss D has had the benefit of all the money she spent on the account so it is right she repay the capital. I have found no grounds to instruct Vanquis to clear the balance as Miss D requested.

Therefore, Vanquis will have to:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £500 after the date of the first limit increase in August 2021.
- If the rework results in a credit balance, this should be refunded to Miss D along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Vanquis should also remove any adverse information recorded after August 2021 regarding this account from Miss D's credit file.
- If the rework results in there being an outstanding capital balance Vanquis must try to agree an affordable repayment plan with Miss D. Once the capital balance has been repaid Vanquis should also remove any adverse information recorded after August 2021 regarding this account from Miss D's credit file.

*HM Revenue & Customs requires Vanquis to deduct tax from any award of interest. It must give Miss D 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

I am upholding Miss D's complaint in part. Vanquis Bank Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 21 February 2024.

Rebecca Connelley
Ombudsman