

## **The complaint**

Miss T complains that Clydesdale Bank Plc trading as Virgin Money lent irresponsibly when it approved her credit card application.

## **What happened**

In March 2021 Miss T applied for a credit card with Virgin Money. In the application, Miss T said she was employed with an income of £30,000. Miss T also said there was a further £50,000 income within the household. Mortgage costs of £825 a month were recorded and Virgin Money carried out a credit search that showed Miss T had around £4,300 in other unsecured credit. Virgin Money applied its lending criteria and says it found Miss T was left with around £274 each month after paying her living costs and credit commitments. Virgin Money approved a credit card with a limit of £7,100.

Last year, Miss T complained that Virgin Money lent irresponsibly when it approved her credit card application. Miss T pointed out she was using almost all her available credit and was consistently overdrawn which she says should've shown Virgin Money she wasn't in a position to afford further credit. Virgin Money issued a final response but didn't agree it had lent irresponsibly.

An investigator at this service upheld Miss T's complaint. They thought Virgin Money should've carried out more comprehensive checks before deciding whether to proceed with Miss T's application. The investigator noted that Miss T's bank statements showed her income was erratic and substantially lower than the figure used in the application. They thought better checks by Virgin Money would most likely have led it to decline Miss T's application and asked it to refund interest, fees and charges applied to her credit card.

Virgin Money asked to appeal and said a retrospective review of Miss T's bank statements showed she earned £5,860 over a period of three month period, which was close to the income figure it had used in its application. Virgin Money also said the investigator had failed to take into account the remaining household income when reaching their conclusions. As Virgin Money asked to appeal, Miss T's complaint has been passed to me to make a decision.

## **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.

Before agreeing to lend, the rules say Virgin Money had to complete reasonable and proportionate checks to ensure Miss T could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;

- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I've looked at the information Virgin Money had when it considered Miss T's credit card application. Virgin Money says Miss T gave a household income of £80,000, with £30,000 being from her job. Virgin Money also carried out a credit search and found Miss T owed around £4,300 in unsecured debt and had a mortgage that was £825 a month. I've thought about whether the information in the application was a reasonable basis for Virgin Money to proceed with Miss T's application without carrying out any further checks.

Like the investigator, I think it's important to note that Miss T was consistently using her overdraft each month, generally approaching the maximum limit. The credit limit Virgin Money approved was also reasonably large, when compared with Miss T's recorded income and existing debts so I think that should've highlighted the need for a thorough review of her circumstances. And whilst I can see Virgin Money found Miss T had around £274 each month left after her costs were covered, going by the application data, I agree with the investigator that this would've meant her ability to make payments *and* repay the outstanding balance over a reasonable time period would've been difficult, especially at the end of the promotional interest rate. In my view, those factors ought to have caused Virgin Money to go further in the checks it completed – like verifying Miss T's income or reviewing her bank statements.

Miss T has sent us a copy of her bank statements for the three months before her credit card was approved. Looking at them, I think it's reasonable to say the level of income doesn't match the figure given in the application. It's clear Miss T's income varied considerably at this time with over £4,000 being paid in one month and £800 being paid the next. Given the variable nature of Miss T's income at the time of application, I think it's more like than not that a more comprehensive set of checks would've show she was unlikely to be able to sustainably repay a new credit card with a credit limit of £7,100, even accepting that included balances transferred from existing credit cards.

I note Virgin Money has referenced further household income of £50,000. But I've not seen anything that shows Virgin Money sought to verify whether that income would've been available to Miss T to make repayments to her credit card. In my view, if Virgin Money was looking to rely on that income to support Miss T's application it should've done more to find out the basis on which it was being paid and whether it was available to for credit card payments.

Having considered all the available information, my view is that Virgin Money lent irresponsibly when it approved Miss T's credit card application. So I'm going to uphold Miss T's complaint and direct Virgin Money to refund all interest, fees and charges applied since inception.

### **My final decision**

My decision is that I uphold Miss T's complaint and direct Clydesdale Bank Plc trading as Virgin Money to settle as follows:

- Rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Miss T 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 Miss T's credit file.
- Or, if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Miss T for the remaining amount. Once Miss T has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

\*HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. It must give Miss T 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 Miss T to accept or reject my decision before 19 April 2024.

Marco Manente  
**Ombudsman**