

## **Complaint**

Miss A has complained about a credit card and subsequent credit limit increases Capital One (Europe) plc (“Capital One”) provided to her. She says the credit card was unaffordable.

## **Background**

Capital One provided Miss A with a credit card with an initial limit of £750 in July 2018. Miss A’s credit limit was increased to £850 in December 2020; and £1,100.00 in July 2023.

When it reviewed Miss A’s complaint, Capital One accepted it shouldn’t have offered the second credit limit increase to Miss A. And it agreed to refund all interest, fees and charges Miss A paid on balances above £850 as a result. As this is in line with what we’d tell a lender to do in the event we were to uphold a complaint about a lending decision we’ve not looked into the second limit increase.

One of our investigators then reviewed what Miss A and Capital One had told us. And he thought Capital One hadn’t done anything wrong or treated Miss A unfairly in relation to providing the credit card or increasing the credit limit in December 2020. So he thought that what Capital One had already agreed to do to put things right for Miss A was fair and reasonable in the circumstances of her complaint.

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

## **My findings**

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 Miss A’s complaint.

Capital One needed to make sure it didn’t lend irresponsibly. In practice, what this means is Capital One needed to carry out proportionate checks to be able to understand whether Miss A 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.

Capital One says it initially agreed to Miss A’s application after it obtained information on her income and carried out a credit search. And the information obtained indicated that Miss A would be able to make the relatively low monthly repayments required for a credit card with a

limit of £750. Due to Miss A's account being relatively well managed she was then offered the credit limit increase to £850. On the other hand Miss A says that she shouldn't have been lent to and the credit was provided at a time when she couldn't afford it.

I've considered what the parties have said.

#### *Capital One's decision to provide Miss A with a credit card with a limit of £750*

What's important to note is that Miss A was provided with a revolving credit facility rather than a loan. And this means that to start with Capital One was required to understand whether a credit limit of £750 could be repaid within a reasonable period of time, rather than all in one go. A credit limit of £750 required small monthly payments in order to clear the full amount owed within a reasonable period of time.

The information Capital One has provided shows that Miss A declared an annual income of £14,000.00 and that she had low levels of existing debt. This appears to have been supported by a credit check which Capital One carried out.

Given the information Capital One obtained and what it showed, I'm satisfied that Capital One was entitled to rely on Miss A's declaration of income and the rest of the information that it obtained which it used to determine that an initial credit of £750 was affordable for Miss A. As this is the case, I'm satisfied that the checks carried out before Miss A was initially provided with her credit card were reasonable and proportionate.

#### *The credit limit increase*

For the first credit limit increase, it appears as though Capital One mainly relied on Miss A's account having been managed well in the sixteen months or so since it had been opened. It's worth noting that by time that this credit limit was offered, Miss A's credit limit was at £350 as a result of a request she made to reduce it.

However, after this I can see that Miss A had stayed within her credit limit and was reducing what she owed. She even cleared her entire balance in November 2020 with a payment that would have been far in excess of what was needed in order to clear a balance of £850 within a reasonable period of time. So I can see why Capital One might have thought that an extra £600 on a revolving credit basis might have been affordable for Miss A.

I'm also mindful that although there wasn't anything in the way of any adverse information or significant indebtedness on the credit search Capital One carried out. Indeed, at this stage Miss A's total balances were only around £1,700.00. More importantly, while Miss A says she was on furlough at the time and wasn't working, Capital One did obtain information from credit reference agencies on the amount of funds going into her account each month. This suggested that Miss A received sufficient funds to be able to repay £850 within a reasonable period of time.

So overall while I can understand Miss A's sentiments, it seems to me that Capital One was reasonably entitled to believe that she could afford to sustainably repay the required amount for the first credit limit increase within a reasonable period of time.

As this is the case, I don't think that Capital One treated Miss A unfairly or unreasonably when providing her with his credit card or subsequently increasing her credit limit to £850 in December 2020. I'm therefore satisfied that what Capital One has already offered to do to put things right for Miss A is fair and reasonable in all of the circumstances and I'm not requiring to do anything further.

I appreciate this will be very disappointing for Miss A. But I hope she'll understand the reasons for my decision and that she'll at least feel that her concerns have been listened to.

### **Fair compensation – what Capital One needs to do to put things right for Miss A**

Having carefully considered everything, I think that it would be fair and reasonable, in all the circumstances of Miss A's complaint, for Capital One to put things right in the following way (which it has already agreed to do):

- rework Miss A's account to ensure that from July 2023 interest is only charged on the first £850 outstanding - to reflect the fact that the second credit limit increase should not have been provided. All late payment and over limit fees should also be removed;
- if an outstanding balance remains on Miss A's account once all adjustments have been made Capital One should contact Miss A to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss A's credit file, it should backdate this to when it shouldn't have provided the additional credit in question in the first place;
- if the effect of all adjustments results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss A along with 8% simple interest† on the overpayments from the date they were made until the date of settlement. If no outstanding balance remains on Miss A account after all adjustments have been made, then Capital One should remove any adverse information it has recorded from Miss A's credit file.

† HM Revenue & Customs requires Capital One to take off tax from this interest. Capital One must give Miss A a certificate showing how much tax it has taken off if she asks for one.

### **My final decision**

For the reasons I've explained, I'm satisfied that what Capital One (Europe) plc has already agreed to do for Miss A is fair and reasonable in all the circumstances of the complaint. And I'm not requiring it to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 22 April 2024.

Jeshen Narayanan  
**Ombudsman**