

The complaint

Mr B complains that Clydesdale Bank Plc trading as Virgin Money lent irresponsibly when it approved his credit card application and later increased the credit limit.

What happened

Mr B applied for a credit card in September 2019. In Mr B's application, he said he was employed with an income of £23,000 and had monthly living costs of £250. A household income of £38,000 was declared by Mr B in the application. Virgin Money carried out a credit search and found Mr B owed around £5,250 in unsecured debt requiring payments of around £600 a month.

Virgin Money applied its lending criteria to Mr B's application. The lending data shows Virgin Money calculated Mr B had an individual disposable income of £728 and household disposable income of £1,565. Virgin Money approved the application and sent Mr B a credit card with a limit of £2,300.

Virgin Money says that in January 2022 it reviewed Mr B's account and approved a credit limit increase to £4,600. At the time, Mr B owed around £8,100 in unsecured debt.

Last year, Mr B complained that Virgin Money had lent irresponsibly and it issued a final response. Virgin Money said it had carried out the necessary checks before agreeing to lend and didn't agree it had lent irresponsibly.

An investigator at this service upheld Mr B's complaint. They thought the information on Mr B's credit file, including the level of outstanding unsecured debt, should've caused Virgin Money to carry out more comprehensive checks before deciding to proceed with his application. When the investigator reviewed Mr B's bank statements from the period before his application, they found the level of expenditure was high and that he was gambling regularly at an unsustainable level. The investigator also thought the decision to increase Mr B's credit limit in January 2022 was unreasonable and upheld Mr B's complaint, asking Virgin Money to refund all interest, fees and charges applied since inception.

Mr B accepted but Virgin Money asked to see copies of the bank statements the investigator had relied on. Following a review of Mr B's bank statements, Virgin Money asked to appeal and said it remained of the view it had carried out the necessary checks before approving his application and increasing the credit limit. As Virgin Money asked to appeal, Mr B'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 Mr B 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 think the investigator made a reasonable point when they said Mr B already owed around £5,250 in unsecured debt when he applied for a new credit card with Virgin Money. The monthly cost of making payments to service those debts was around £610 and Mr B gave rent costs of £250 a month. Virgin Money calculated Mr B had around £728 in disposable income. In my view, Mr B's outgoings to service existing debts was high given his net income each month. And I can't see that Virgin Money considered other essential spending Mr B may've had at the time. I agree with the investigator that the information obtained within the application wasn't proportionate to borrowing and should've caused Virgin Money to go further before approving the credit card.

One option Virgin Money had was to review Mr B's bank statements to get a better picture of his circumstances. I've looked at Mr B's bank statements for the months preceding his application. Mr B's bank statements show his outgoings were somewhat higher than the figures used by Virgin Money, but they also show his income wasn't in line with the figure used in the application. Over three months, Mr B's average income was around £1,250, not the £1,600 figure Virgin Money used. In addition, a review of Mr B's bank statements show he was gambling at a high level around this time. In June 2019 Mr B gambled around £750. In July 2019 Mr B only gambled £100 but in August 2019 it was around £1,400 from his current account.

In my view, a thorough review of Mr B's bank statements would've shown he was earning less than noted in the application and was gambling at an unsustainable rate. I think a more comprehensive approach to Mr B's credit card application would most likely have led Virgin Money to decline it.

It follows that if I think the original decision to approve Mr B's credit card was irresponsible, I think the same of the decision to increase the credit limit in January 2022. By this point, Mr B's unsecured debt had increased from around £5,250 to around £8,100 requiring higher repayments each month. Mr B has sent us copies of his bank statements that show his income was being used to cover essential living expenses and day to day spending without further capacity to make additional repayments. In addition, Mr B's bank statements show he was still gambling at a high level during this time. I'm satisfied a review of Mr B's statements by Virgin Money would've quickly found he wasn't in a position to afford further borrowing and agree with the investigator's view that his complaint should be upheld.

As I'm satisfied Virgin Money would've most likely declined Mr B's application if it had carried out more comprehensive checks I'm upholding his complaint and directing it to refund all interest, fees and charges applied since inception.

My final decision

My decision is that I uphold Mr B'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 to the balance since inception.
- If the rework results in a credit balance, this should be refunded to Mr B 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 Mr B's credit file.
- Or, if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mr B for the remaining amount. Once Mr B 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 Mr B 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.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 21 May 2024.

Marco Manente
Ombudsman