

The complaint

Mr S complains that Clydesdale Bank Plc trading as Virgin Money lent irresponsibly when it approved his credit card application.

What happened

In February 2020 Mr S applied for a credit card with Virgin Money. In the application, Mr S said he was employed with an income of £25,000 and had a mortgage of around £400 a month. Virgin Money carried out a credit search and found Mr S' mortgage was about £83,000 with monthly repayments of £433 and that he had around £22,000 of unsecured credit, with monthly repayments totalling £466.

Virgin Money says it used the credit reference agencies to verify the level of income being paid into Mr S' bank account. Virgin Money applied estimated essential living costs obtained from national statistics and says Mr S' credit card was approved with a credit limit of £3,300.

Last year, Mr S complained that Virgin Money had lent irresponsibly. Mr S also complained that the credit card Virgin Money approved had impacted his mental health. Virgin Money issued a final response on 6 September 2023. Virgin Money said it had completed the relevant checks before approving Mr S application. Virgin Money didn't uphold Mr S' complaint.

An investigator at this service looked at Mr S' case and upheld it. They thought there were signs Mr S had become reliant on credit to make ends meet when his application was made. The investigator thought the decision to approve further borrowing had unfairly impacted Mr S' finances and mental health and ask Virgin Money to refund all interest, fees and charges applied to the debt and pay him £150 for the distress and inconvenience caused.

Virgin Money asked to appeal and repeated that the application was approved in line with its lending criteria and that it wasn't persuaded the decision to approve Mr S' credit card application was irresponsible. As Virgin Money asked to appeal, Mr 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 S 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 available when Mr S made his application. Mr S advised he was a homeowner with a mortgage and employed with an income of £25,000 a year. Virgin Money also carried out a credit search to get a picture of what Mr S owed and how his finances were handled. I can see that in its submissions to us, Virgin Money says there was no indication Mr S was struggling.

I note Virgin Money found Mr S owed around £22,000 in other unsecured debt. That figure is slightly lower than Mr S' declared annual income of £25,000. In my view, Mr S' mortgage and existing credit repayments were already taking up a substantial part of his income each month. I agree with the investigator that the level of checks Virgin Money completed should've gone further before any application was approved to ensure repayments were sustainable.

As noted above, there's no set list of checks a lender has to complete. But one option would've been to review Mr S' bank statements for the months preceding his application. Mr S has forwarded his bank statements for the period in question. I can see that Mr S had a substantial overdraft facility of over £3,000. And January 2020's statement shows evidence of direct debits being returned due to insufficient funds. I note that Mr S' account was subject to daily overdraft fees that were over £4.50 at times which added to the level of expenditure he was making towards servicing debt.

Mr S' bank statements show his income was already being fully utilised each month. I can see regular outgoings for direct debits and charges to around £1,300 each month. And Mr S' remaining income was being used to cover the day to day living costs. In my view, the statements show Mr S was already at capacity in terms of his existing commitments and living expenses. Even accepting Mr S would've received a temporary benefit from the balance transfer promotion Virgin Money approved, I still think the decision to increase his overall indebtedness was unfair. Overall, I agree with the investigator that Virgin Money lent irresponsibly when it made the decision to approve Mr S' credit card application.

Our investigator also awarded £150 to Mr S to reflect the impact to Mr S' mental health. Mr S has provided evidence from industry professionals that confirms his mental health has been affected by his financial situation and borrowing. So I think a payment to reflect the level of distress and inconvenience caused of £150 is a fair way to recognise how the situation has impacted Mr S.

My final decision

My decision is that I uphold Mr S' complaint and direct Clydesdale Bank Plc trading as Virgin Money to settle as follows:

- Pay Mr S £150 for the distress and inconvenience caused
- 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 Mr S 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 S' credit file.

- Or, if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

If Virgin Money has sold the debt to a third party, it should arrange to either it back or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. It must give Mr S 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 S to accept or reject my decision before 17 May 2024.

Marco Manente
Ombudsman