

The complaint

Mr O complains that Barclaycard Bank UK PLC, trading as Barclaycard ('Barclaycard'), irresponsibly granted him a credit card he couldn't afford to repay.

What happened

Mr O entered into an agreement with Barclaycard to have access to credit with a credit card account. The account was opened in August 2010 with a credit limit of £3,820. There then followed ten credit limit increases, taking place between May 2011 and December 2019, when the credit limit reached £20,000.

Mr O says Barclaycard didn't complete adequate affordability checks when it opened the account. He says if it had, it would have seen that it wasn't affordable for him given his spending on the card.

Barclaycard at first said it carried out the proper credit checks before granting him the opening credit and various credit limit increases, with the exception of the last credit limit increase in December 2019.

Our investigator said that Barclaycard shouldn't have granted Mr O further credit after the third credit limit increase – which was in December 2011. This is because he didn't have enough disposable income to afford to repay the card given his monthly spending on gambling transactions.

Barclaycard agreed with our investigator's finding, but Mr O did not. Mr O says Barclaycard ought not to have granted him the card at all.

So the complaint has come to me for a final 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.

I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point it's not because I've failed to take it on board and think about it, but because I don't think I need to comment on it in order to reach what I think is the right outcome.

Barclaycard needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr O could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Mr O's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Barclaycard should fairly and reasonably have done more to establish that any lending was sustainable for Mr O. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the frequency of borrowing, and the longer the period of time during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Having reviewed this complaint in its entirety, including what Mr O has said in response to our investigator's finding, I've concluded that Barclaycard's offer is fair. I will explain why in a bit more detail.

The crux of Mr O's complaint is that the card was always unaffordable for him due to the high level of gambling transactions he was spending his available income on. So I will start by reviewing what happened when Barclaycard agreed to open the account. I will then look at the credit card limit increases to see if there is a point where Barclaycard ought not to have agreed to increase the limit.

Account opening

Barclaycard says it looked at the information Mr O included in his application as well as checking his credit file before granting him the account. Mr O told Barclaycard his annual income was £19,500. He was living at home with his parents. This works out to represent a monthly net income of around £1,300. Barclaycard's credit check didn't show Mr O as having any other credit commitments, although he already banked with Barclaycard and had been operating mobile phone accounts.

In the context of a not insignificant credit limit that Barclaycard was proposing to give Mr O, I think it should have taken steps to verify the amount he was earning. I also think that it should have done more to gain a better understanding of Mr O's overall financial circumstances before granting him the credit. I can see that on the one hand Mr O might have appeared to have a good amount of disposable income as he had no other significant credit commitments. And it was likely a lower level of monthly household costs as he lived at home. But I don't think these assumptions can be relied on without some level of checking by Barclaycard to see how Mr O was managing his finances and how the new credit, if granted, would fit in alongside his day-to-day commitments and be sustainably repayable going forwards.

I can't be sure exactly what Barclaycard would have found out if it had asked about his financial circumstances and in particular what he was spending his income on. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Mr O's bank statements as to what would most likely have been disclosed.

I've reviewed bank statements for the months leading up to the account opening. I can see Mr O's monthly income coming in which broadly reflects what he told Barclaycard on his application. I've also noted his occasional overdraft use. I think overdraft usage is often a potential issue of concern. But in this instance I can't see that Mr O was overly reliant on it. I can see that he had mobile phone and car costs – including repaying car finance - and some food costs. Other than that, Mr O appeared able to fund a reasonable level of leisure spending. I've noted that this included some online gambling transactions.

Gambling is also a potential area of concern. So it needs to be looked at as part of Mr O's overall spending pattern. I can't say that Mr O's use of gambling sites at this point was necessarily something that would or ought to have alerted Barclaycard to a potential deterioration in Mr O's financial position, to the extent that it would have been unfair to grant him the credit. I think on balance his handling of his Barclaycard current account demonstrates that he had enough disposable income available to him each month so as to be able to make regular, sustainable repayments towards his new card. Had Barclaycard completed proportionate checks, I think it's likely it would have discovered this too. It therefore didn't act unfairly by opening the account.

I've seen that Mr O disagrees with our investigator's findings about the account opening. If his use of gambling sites had continued at a level and frequency that indicated he could be experiencing financial difficulty, then I might have expected Barclaycard to take a closer look at how he was managing his account. But if the account was being used within the normal expected limits and without signs of problems – as I think it was - I don't think it's reasonable to expect Barclaycard to take further action.

First and second credit limit increases

As our investigator has already said, Barclaycard doesn't have detailed information about the credit it checks it carried out before November 2014. So it's not really possible to make a finding that the checks were likely to have been proportionate.

Again, we've relied on the bank statements Mr O has given us. There's a moderate increase in his average monthly income and again some overdraft usage in the run-up to getting his salary each month. There's little or no evidence of gambling. Mr O appears to have been in good control of his finances, meeting his commitments and controlling his spending so as not to worsen his financial situation. That means I don't consider it likely that Barclays would have been given cause not to grant these limit increases had it looked further into his financial situation at this point.

Third and subsequent credit limit increases

Again, we don't have full details of the checks used by Barclaycard at the time of the December 2011 credit limit increase, from £6,000 to £8,900. But given that Mr O's credit limit increase was being substantially increased, Barclaycard needed to take steps to understand Mr O's financial position. Again, his income ought also to have been verified. The fact that Mr O may well have been managing his card account balance and not incurring adverse markings such as for late and missed payments, isn't enough to demonstrate that an increase of this magnitude would necessarily be affordable.

This time Mr O's bank statements strongly suggest that his overall financial circumstances had deteriorated and were at risk of further deterioration. The statements show that Mr O was making very heavy use of his overdraft and was not able to come out of it when paid each month. In addition, Mr O had returned to making use of gambling sites which was now contributing to his worsening financial position.

So I agree that his handling of his account at this time amply demonstrates that Mr O didn't have enough disposable income to sustainably afford the additional borrowing which Barclaycard was now agreeing to provide. I am in little doubt that if Barclaycard had made better enquiries into Mr O's financial situation it would have seen this.

Putting things right – what Barclaycard needs to do

Barclaycard has agreed it shouldn't have granted Mr O the third credit limit increase in December 2011. Barclaycard therefore needs to do the following:

- Rework Mr O's account to ensure that all interest and charges should be removed from the account for balances over £6,000, being the credit limit in place immediately prior to this increase. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made, Barclaycard should contact Mr O to arrange an affordable repayment plan for the account. Once Mr O has repaid the outstanding balance, it should remove any adverse information recorded on Mr O's credit file from the date of the second December 2011 increase onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr O, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Barclaycard should also remove any adverse information from Mr O's credit file from the date of the December 2011 increase.

†HM Revenue & Customs requires Barclaycard to take off tax from this interest. Barclaycard must give Mr O a certificate showing how much tax it's taken off if he asks for one.

My final decision

Barclays Bank UK PLC, trading as Barclaycard, has already made an offer to settle Mr O's complaint on the above basis. I think that offer is fair in all the circumstances.

So my decision is that it needs to pay Mr O compensation in the manner I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 12 June 2024.

Michael Goldberg
Ombudsman