

The complaint

Mr D complains that Clydesdale Bank Plc trading as Virgin Money lent irresponsibly when it approved two credit card applications around six months apart.

What happened

In January 2022 Mr D applied for a credit card with Virgin Money. In the application, Mr D said he was employed with an income of £38,000. Virgin Money calculated a net monthly income of £2,458. Mr D also said he was a homeowner with a mortgage of £626 a month. Virgin Money carried out a credit search and found Mr D owed around £26,565 in other unsecured debts. Virgin Money says it applied its lending criteria, including costs of everyday spending, and found Mr D had around £563 in disposable income each month. Virgin Money approved a credit card with a limit of £5,800. Mr D went on to complete balance transfers.

Mr D applied for a second credit card in June 2022. The information Mr D provided in the second application was broadly in line with the details included in his first, six months before. Virgin Money carried out another credit search and found Mr D's unsecured debt had increased to around £34,600. Virgin Money says it applied its lending criteria and found Mr D had £339 of disposable income each month and approved a credit card with a limit of £11,400.

Mr D subsequently entered into a Debt Management Plan and both cards were closed at default and sold to other businesses.

More recently, Mr D complained that Virgin Money had lent irresponsibly when it approved both credit card applications. Virgin Money issued a final response on 16 January 2024 but didn't uphold Mr D's complaint.

An investigator at this service looked at Mr D's complaint and upheld it. They thought Virgin Money should've completed more comprehensive checks before approving both credit card applications. The investigator looked at Mr D's bank statements and didn't think he had additional capacity to sustainably make further repayments.

Virgin Money offered to settle by refunding all interest fees and charges applied to the second credit card but didn't agree it had lent irresponsibly when approving the first. As Virgin Money didn't accept the investigator's view and Mr D wasn't willing to proceed with only one of the credit cards being upheld his case 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 D 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 considering both credit card applications. When Mr D first applied, he gave his income as £38,000 and confirmed he was a homeowner with a mortgage of £626 each month. Virgin Money has provided evidence of what it found on Mr D's credit file. I note that when Mr D applied, he already owed a total of £26,565 which is reasonably high when compared to his income. The credit file data shows Mr D had a current missed payment on one of his accounts at the time of his application. Mr D's also sent us a copy of his full credit file which gives a detailed picture of what he owed. And I note that Mr D had successfully applied for a new loan of £25,000 in early November 2021. In my view, a new credit commitment of this size, even if it was used to consolidate other debts, shows Mr D was already borrowing at a high rate. When considered against Mr D's other commitments and the overall size of his existing debts, I'm satisfied that should've caused Virgin Money to be very sure he could sustainably afford to borrow and funds owed and done more before proceeding.

I agree with the investigator that more comprehensive checks, like reviewing Mr D's bank statements for example, would've been appropriate.

I've looked at Mr D's October, November and December 2021 bank statements. They show Mr D was earning broadly in line with what Virgin Money used in the application. But the bank statements show Mr D was already making a substantial level of repayments to existing debts and regular commitments each month. Like the investigator, I found Mr D would've had around £100 a month left after making the new repayments to Virgin Money and covering his existing commitments. And I'm not persuaded that left Mr D with sufficient capacity to cover any emergency bills or unexpected costs. I also note that Mr D was using his bank account to gamble at a rate of around £200 a month during this period. I'd have expected Virgin Money to have taken that, in addition to the other information it found, into account.

Overall, I'm satisfied that a more thorough review of Mr D's circumstances would've most likely led Virgin Money to decline his credit card application in January 2021. As a result, I'm upholding this part of Mr D's complaint and directing Virgin Money to refund all interest, fees and charges applied since inception.

I note that Virgin Money has already made an offer to settle on the basis that the second credit card was approved six months later with a credit limit of £11,400. I note that Mr D's unsecured debt had increased by around £10,000 in the six months between applications. Given the proximity of the application and size of the credit limit approved, I agree the decision to uphold this part of Mr D's case is appropriate – in line with Virgin Money's correspondence with the investigator. So I'm going to proceed on that basis and uphold Mr D's complaint about the second credit card as well.

My final decision

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

- Rework the accounts removing all interest, fees, charges, and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance on either account, this should be refunded to Mr D 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 these accounts from Mr D's credit file.

Or

- If after the rework there is still an outstanding balance on either account, Virgin Money should arrange an affordable repayment plan with Mr D for the remaining amount. Once he's cleared the balance, any adverse information in relation to these accounts should be removed from his credit file.

If Virgin Money sold the debts, it should arrange to either buy back them back from the relevant third party 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 D 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 D to accept or reject my decision before 10 June 2024.

Marco Manente
Ombudsman