

The complaint

Miss W complains that Clydesdale Bank Plc trading as Virgin Money was irresponsible in its lending to her. She wants all interest and charges applied to her accounts refunded and her accounts to be frozen so no further interest or charges are applied.

What happened

Miss W was provided with two credit cards by Virgin Money and says that before the credit was provided adequate checks weren't carried out. She says the credit is unaffordable and she is only able to pay the interest on the accounts meaning she can't clear the balances. Miss W wants all interest and charges refunded and for no further interest or charges to be applied so that she can repay the amount she borrowed and close the accounts.

Virgin Money issued a final response letter dated 15 April 2024. It explained that Miss W's first account was opened in August 2022 with a credit limit of £1,200 and a second account was opened in November 2023 with a credit limit of £1,600. It noted that the credit limits on the cards hadn't been increased. Virgin Money said that at the time of the first application Miss W declared an annual income of £14,000 and at the time of the second application, an annual income of £20,000. Virgin Money said that before the credit was provided it reviewed a range of factors and the decisions to lend were based on the information Miss W provided and that received from the credit reference agencies. It didn't accept that the lending had been provided irresponsibly.

Our investigator upheld this complaint. He thought that further checks should have taken place before both credit cards were provided. He said that had further checks taken place, Virgin Money would have seen that Miss W's earnings were less than she had declared and that she was operating in her overdraft and borrowing from family and friends. Based on further checks he didn't think that the credit card accounts should have been provided to Miss W.

Virgin Money didn't agree with our investigator's view. It didn't accept that it was required to obtain Miss W's bank statements noting she had a relatively good credit history. It said that at the time the first credit card was provided the bank statements showed Miss W receiving income from her business as well as transactions to other accounts. It also noted monthly payments of £1,000 from a third party which it assumed was the other household income (recorded by Miss W as £40,000 a year but not included in its calculations). It said the reversed payment recorded on Miss W's statement wouldn't have shown in the credit bureau data and it said it relied on the credit reference agency information it received.

Virgin Money said that at the time of the second credit card application the payments from the third party into the account had stopped but Miss W's situation had improved.

Our investigator issued a second view. He noted Virgin Money's comments but said he didn't think a basic credit check was sufficient in this case and that further checks should have taken place. He confirmed his view that further checks would have shown the lending shouldn't have been provided.

Virgin Money noted our investigator's comment that the monthly limit on the credit card was around Miss W's monthly income but said that for credit card lending limits were often higher than a customer's monthly income. It didn't accept that the lending was irresponsible but said that it would refer Miss W to its specialist support team.

As a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman, to issue 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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Virgin Money provided Miss W with the first credit card in August 2022. Before providing the credit, it gathered information through its application process about Miss W's employment and income. It also carried out a credit check.

Miss W said she was self-employed with an annual income of £14,000. This would give a monthly income of around £1,130. While the income was validated and I do not find that the credit check results showed signs that Miss W was struggling financially at the time, I can see that Miss W had £9,119 of unsecured debt (of which £2,395 was revolving debt). I appreciate that the credit limit being provided was relatively modest but as this was against a relatively low income and noting her other credit commitments, I think it would have been reasonable to have carried out further checks so that Virgin Money had a clear understanding of Miss W's financial circumstances to ensure the lending was affordable. I also have considered that as Miss W was self-employed there was the possibility that her income would vary.

While I agree that Virgin Money wasn't required to ask for copies of Miss W's bank statements, as I think it needed to do more to understand Miss W's circumstances, I have used the information provided in the bank statements to understand what Virgin Money would likely have identified had further checks been undertaken.

Miss W's bank statements show that she was receiving income from her self-employment as well as child benefit. However, the employment income wasn't regular and the total of her income and benefits was less than the income declared in her application. I note Virgin Money's comment about Miss W also receiving regular income from a third party. It suggested this was for household costs and noted that Miss W declared additional household income. However, as the application was in Miss W's name, I think it reasonable that it was her income and expenses that were considered. While I note the comment about the additional payments, I can see that Miss W was receiving money from a number of individuals and she was also making payments to these people. She has explained that she was borrowing from family and friends, and this seems to be supported by her statements. Therefore, I think had further questions been asked, these would have raised concerns that Miss W's income was variable and lower than declared and that she was needing to borrow from friends and family.

Looking at Miss W's expenses at the time for costs such as utilities, insurance, council tax and other credit commitments these showed her to have monthly expenses of over £1,000. This is before her general living costs such as food and transport. As I think further checks would have identified that Miss W was receiving less income each month than the £1,130 she declared, and noting her costs including general expenses would exceed this amount, I think that further checks would have shown that providing credit to Miss W at this time wasn't sustainably affordable.

Miss W applied for a second credit card in November 2023. Her application showed her still to be self-employed but her annual income was recorded as £20,000. Given the concerns that would have been identified had further checks been carried out before the first credit card was provided in regard to Miss W's income, I think this increase should have raised questions that needed to be checked. Had this happened, Virgin Money would have seen that Miss W wasn't receiving the income she declared and taking into account her expenses at the time I do not find that this lending should have been considered affordable.

In conclusion, I think that further checks were proportionate in this case and that had these happened, Virgin Money would have realised that the credit card accounts weren't sustainably affordable for Miss W. Because of this, I am upholding this complaint.

Putting things right

As I don't think Virgin Money ought to have opened the accounts, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Miss W should pay back the amounts she has borrowed. Therefore, Virgin Money should:

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

*HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. It must give Miss W a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

My final decision is that Clydesdale Bank Plc trading as Virgin Money should take the action set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 16 July 2024.

Jane Archer

Ombudsman