The complaint

Mr B is being represented by a claims manager. He's complaining about Vanquis Bank Limited because he says it lent irresponsibly by providing a credit card he couldn't afford and subsequently increasing the credit limit.

What happened

Mr B has a credit card account with Vanquis. The account was opened in May 2019 with a credit limit of £1,000. This was increased to £2,000 in September 2019, £3,250 in March 2022, £4,000 in November 2022 and £5,000 in March 2023.

Our investigator didn't conclude the complaint should be upheld. She felt Vanquis carried out appropriate affordability assessments at outset and each time the limit was increased and was entitled to believe the credit being offered was affordable.

Mr B didn't accept the investigator's assessment. He says the card was always maxed out with him making only the minimum payment and always putting the same amount back on the card the following month.

The complaint has now been referred to me for review.

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.

Having done so, I've reached the same overall conclusions as the investigator. I haven't necessarily commented on every single point raised but concentrated instead on the issues I believe are central to the outcome of the complaint. This is consistent with our established role as an informal alternative to the courts. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

Before lending to Mr B, Vanquis was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider in respect of each lending decision are:

- Did Vanquis complete reasonable and proportionate checks to establish Mr B would be able to repay the credit in a sustainable way?
- If so, was the decision to lend fair and reasonable?
- If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?

Initial lending in May 2019

Vanquis has described the information it gathered to assess whether Mr B's credit was affordable before it was approved. This included:

- information contained in his application, including residential status, employment status and his income;
- information obtained from a credit reference agency (CRA), giving details of his existing credit arrangements and any past issues with credit; and
- an expenditure assessment using a combination of modelled data for key expenses, along with actual data from the CRA about the cost of his existing credit arrangements.

In making his application, Mr B declared his annual income was £32,500. In respect of his existing commitments, Vanquis' credit check showed he had debt of around £3,100. While the credit check shows he'd had problems in the past that lead to defaults and CCJs, these weren't recent and he was up to date with payments on the accounts held at the time of application.

After considering this information carefully, I don't think there was any indication Mr B was struggling financially at this point. He wasn't heavily indebted compared to his income and seemed to be managing his existing commitments well.

Vanquis says it also considered Mr B's key expenditure based on a combination of his existing credit commitments as recorded by the CRA, and modelled statistical data to estimate other living expenses. In this way, it determined he had sufficient disposable income to afford the additional credit.

The use of modelled statistical data to estimate expenditure is an approach that's recognised by the regulator for assessing credit applications. It was clearly less thorough than an assessment of Mr B's actual expenses by reference to his bank statements for example. But in view of the amount of credit being offered and the information Vanquis already had about his income and existing commitments, I think it was a proportionate approach in this case.

I've also considered Vanquis' lending decision based on the information obtained from what I believe to have been a proportionate affordability assessment. The amount of credit being offered was relatively low and I think Vanquis was entitled to believe repayments would be affordable for Mr B and that the decision to lend was a reasonable one.

1st credit limit increase in September 2019

When considering whether it was appropriate to increase the credit limit on the account, and in addition to information obtained from a CRA and modelled expenditure assessment, Vanquis was also able to consider how Mr B had managed his credit card account up to this point.

At the time of the first increase, I've seen nothing to indicate Mr B was struggling financially. The CRA data showed his overall debt hadn't increased and that there were no significant issues with making payments on that debt. With respect to the management of his Vanquis account, Mr B was using around 86% of the limit and had made payments averaging nearly double the minimum required amount over the previous three months.

Again, Vanquis used modelled date to estimate Mr B's expenditure and I'm satisfied this was a proportionate approach based on the information it had from the CRA and its own systems about the past management of the credit card account.

Taking everything into account, I think the affordability assessment completed by Vanquis at this time was proportionate and that it was entitled to believe further credit was affordable and therefore made a reasonable decision to lend.

Second credit limit increase in March 2022

At this time, Mr B seemed to be managing his Vanquis account well enough. While his average payment over the previous three months wasn't much more than the minimum, he was only using a little over half the available limit. But I am conscious that by this time the amount of credit being offered was becoming more significant. I also note from the CRA data provided that Mr B's overall debt was significantly higher than it had been when previous lending decisions were made, now standing at £11,600.

On balance, I think these points should have prompted Vanquis to carry out further checks and that an affordability assessment based partly on modelled statistical data wasn't proportionate on this occasion.

I can't know exactly what further checks Vanquis might have carried out. But we have obtained copies of Mr B's bank statements for the period prior to the limit increase being offered to establish what could reasonably have been discovered. After considering this information carefully, I've not seen anything that I believe should have led Vanquis to conclude repayments associated with the additional debt were unaffordable. In particular, I note the account consistently maintained a positive balance and there was no use of an overdraft facility.

I note Mr B told our investigator that he had a gambling addiction and this is clearly something Vanquis should have taken into account if it had known about it. While the statements for this period do include a handful of low-value gambling transactions, I don't think this was at a level that should have led Vanquis to conclude further lending wasn't appropriate.

So, taking account of the information I think Vanquis should reasonably have discovered, I'm satisfied it was entitled to believe further credit was affordable and that it made a reasonable decision to offer this.

Later credit limit increases in November 2022 and March 2023

On each occasion, the CRA data showed Mr B's overall debt wasn't increasing. And in terms of the management of his Vanquis account, the records show his average payment over the previous three months was significantly higher than the minimum required and that he was using between 80 and 90% of the available limit. While this meant there were no obvious signs of financial difficulty, the amount of credit being offered was becoming more significant still and again I think a more detailed affordability assessment was warranted.

As above, I've reviewed Mr B's bank statements for the period prior to each increase to assess whether Vanquis was entitled to believe repayments on further credit were likely to be affordable. On each occasion, the statements show Mr B was in receipt of a regular income and that the account consistently maintained a positive balance and there was no use of an overdraft facility. Again, there was a small number of low-value gambling transactions but nothing that I think should have led Vanquis to conclude this might be an issue or that it was irresponsible to lend further.

Taking account of the information I think Vanquis should reasonably have discovered, I'm satisfied it was entitled to believe further credit was affordable and that it made a reasonable decision to offer this.

In summary

On balance, I'm satisfied Vanquis decision to lend on each occasion was reasonable and it's for this reason that I'm not upholding Mr B's complaint. I realise this outcome will be disappointing for him, but I'm satisfied it's fair and reasonable in the circumstances and I hope the additional explanation is helpful.

In reviewing this complaint, I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Vanquis lent irresponsibly to Mr B or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 7 October 2024.

James Biles
Ombudsman