

The complaint

Mr L, through a representative, says Vanquis Bank Limited irresponsibly lent to him.

What happened

Mr L opened a credit card account in August 2018, he was given a £500 limit. This was increased to £1,000 on 1 December 2018 and to £1,750 on 11 May 2019. He says the credit was unaffordable for him.

Vanquis says it carried out adequate checks that showed the card and each limit increase was affordable.

Our investigator upheld Mr L's complaint in part. She felt the checks were proportionate at application and showed the credit to be affordable. But she said further checks were needed for the limit increases, and better checks would have shown any additional credit to be unaffordable for Mr L.

Vanquis disagreed with this assessment and asked for an ombudsman's review. It said the investigator reached her conclusion after reviewing Mr L's bank statements, but it would never come to a lending decision based on the customer's personal bank statements. They are not something it would have access to and are not part of its lending criteria. It made its lending decisions based on data from the credit reference agencies, Mr L's card management and transactions, and any affordability assessment completed at the time. The credit limit increases were based on analysis that showed there was a good disposable income.

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.

Vanquis will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint about unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

To decide if Vanquis lent responsibly I need to consider if its checks were proportionate; if not what would better checks most likely have shown; did it make fair lending decisions; and finally, did it treat Mr L unfairly in some other way.

Account opening and initial limit of £500

I can see Vanquis asked about his income and employment status. It also completed a credit check to understand Mr L's total level of debt and how he was managing his accounts. I think these checks were proportionate given the amount of credit involved and the stage in the lending relationship.

And I think Vanquis made a fair lending decision based on the information it gathered. It learnt that Mr L had a monthly income of £500 from benefits as he wasn't in employment. The credit check showed he had very little debt elsewhere – just £100. He did have a CCJ registered against him in December 2014. But as this adverse date was historic, I don't think it meant Mr L should not have access to credit nearly four years later. Overall, given the card would cost Mr L £25 a month to repay sustainably I think Vanquis made a fair lending decision.

Credit limit increases

In December 2018 and May 2019 Vanquis reviewed how Mr L was using and repaying his account and carried out new credit checks. It also estimated Mr L's income and expenditure to check the affordability of the increases. I am not persuaded these checks went far enough, I'll explain why.

I am not wholly clear how Vanquis estimated Mr L's income, its submission shows it understood it to be £1,000 in December 2018 and £1,200 in May 2019. As this was relatively low I think Vanquis needed to properly verify it using, for example, payslips or benefit statements. I say this as at the time of the first increase Vanquis was planning on doubling Mr L's credit limit with less than four months of account history.

In cases like this we look at bank statements from three months prior to the lending decision to understand what better checks would most likely have shown the lender. Vanquis argues it never makes a decision by reviewing bank statements but to be clear, I am not saying it had to do exactly this. I am saying it needed to have sight of Mr L's actual income and looking at statements is a reliable way for me to know what it would have learnt had it completed adequate checks.

They show Mr L's income did not exceed £300 in any of the three months prior to increase one. So I am certain that Vanquis, as a responsible lender, would not have increased Mr L's limit had it known this. It had estimated his outgoings were £406.40 and so it would have clearly seen he could not afford more credit. The situation had not changed by May 2019, indeed Mr L had just taken out a high-cost loan for £1,000 increasing his indebtedness with no accompanying uplift in income.

It follows I find Vanquis was wrong to increase Mr L's limit from £500.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr L in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

I am aware Mr L is also unhappy with how Vanquis managed his complaint. But this is not something I can look at. There is a difference between a complaint about a financial service and a complaint about how a firm has handled a complaint. I can only look at the former. Mr L's concerns about how Nationwide responded to his complaint is not a complaint about its provision of or failure to provide a financial service – it's distinctly about complaint handling. And under our rules I cannot consider complaint handling.

Putting things right

As Vanquis should not have increased Mr L's credit limit above £500, I don't think it's fair for it to have applied any interest or charges on any balances which exceeded that limit.

Therefore, Vanquis should:

- Rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied to balances above £500.
- If the rework results in a credit balance, this should be refunded to Mr L along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Remove all adverse information recorded after 1 December 2018 regarding this account from his credit file.
- Or, if after the rework the outstanding balance still exceeds £500, Vanquis should arrange an affordable repayment plan with Mr L for the remaining amount. Once there is no outstanding capital balance, any adverse information recorded after 1 December 2018 in relation to the account should be removed from Mr L's credit file.

As the debt has been sold to a third party, Vanquis should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Vanquis to deduct tax from any award of interest. It must give Mr L 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.

My final decision

I am upholding Mr L's complaint in part with regards to the two credit limit increases. Vanquis Bank Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 9 October 2024.

Rebecca Connelley
Ombudsman