

The complaint

Mr Y complains Vanquis Bank Limited irresponsibly lent to him.

Mr Y is represented by a solicitors firm in bringing this complaint. But for ease of reading, I'll refer to any submission and comments they have made as being made by Mr Y himself.

What happened

Mr Y was approved for a Vanquis credit card which was opened in December 2012 with a £500 credit limit. I have detailed the credit limit changes below:

April 2013	£500 to £1,000
September 2013	£1,000 to £1,500
February 2014	£1,500 to £2,500
July 2014	£2,500 to £3,000
February 2015	£3,000 to £3,500
March 2018	£3,500 to £4,000
January 2023	£4,000 to £5,000

Mr Y says that Vanquis irresponsibly lent to him. Mr Y made a complaint to Vanquis, but as Vanquis didn't respond to his complaint, he brought his complaint to our service.

Our investigator partially upheld Mr Y's complaint. She said that the original lending decision was fair, however, Vanquis' information showed that prior to the first credit limit increase there was evidence of short term lending from Mr Y, and he had been over his credit limit, which should have prompted further checks from Vanquis. She said after viewing Mr Y's bank statements, which Vanquis could have done, these show Mr Y would be unable to sustain an increased credit limit.

Vanquis asked for an ombudsman to review the complaint. They said they wouldn't have requested bank statements as this was not part of their credit application process.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This is set out below:

"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 approve or increase the credit available to Mr Y, Vanquis needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. I've listed below what checks Vanquis have done and whether I'm persuaded these checks were proportionate.

Acceptance for the Vanquis credit card - initial credit limit (£500)

I've looked at what checks Vanquis said they did when initially approving Mr Y's application. I'll address the credit limit increases later on. Vanquis said they looked at information provided by credit reference agencies (CRA's) and information that Mr Y had provided before approving his application.

The information showed that Mr Y had no active credit cards at the time the application was approved. He had declared a gross salary of £28,000. But that's not all Vanquis's data showed. The data also showed that Mr Y had defaults valued at £800 with the last one being 27 months prior to his application.

It may help to explain here that, while information like a default on someone's credit file may often mean they're not granted further credit – they don't automatically mean that a lender won't offer borrowing. Here, Vanquis considered the information that Mr Y had on his credit history and still made a decision to lend which, in the circumstances, I think was reasonable.

I say this because this information is not all that Vanquis had access to. The credit checks showed that Mr Y had no County Court Judgements (CCJ's) registered, and there were no active accounts in arrears. The £500 credit limit was less than 2% of his declared gross annual income.

So I'm satisfied that the checks Vanquis carried out here, prior to approving the initial £500 credit limit were proportionate and that Vanquis made a fair lending decision to approve Mr Y's application.

April 2013 credit limit increase - £500 to £1,000

I've looked at the information available to Vanquis when they increased Mr Y's credit limit to £1,000. I'll address the other credit limit increases later on. The information showed that Mr Y had exceeded his credit limit not long after he had been approved for the Vanquis credit card. This could be a sign of financial difficulty. But it also could have been a genuine oversight from Mr Y. So I've had a look if there were any other signs of financial difficulty from the information Vanquis had from the CRA, and how Mr Y had managed his account.

The data from the CRA doesn't show high unsecured borrowings just prior to the April 2013 credit limit increase. In the data for the month prior to the credit limit increase, the CRA had reported no short term borrowings from Mr Y over the prior three month period. I can see that Mr Y had made repayments to his Vanquis credit card which would have been higher than his minimum repayments, so it did appear that Mr Y had just made an oversight in exceeding his credit limit shortly after the account had been approved.

So I'm satisfied that the checks Vanquis carried out here, prior to approving the £1,000 credit limit were proportionate and that Vanquis made a fair lending decision to increase the credit limit to £1,000.

September 2013 credit limit increase - £1,000 to £1,500

I've looked at the information available to Vanquis when they increased Mr Y's credit limit to £1,500. The information showed that Mr Y was utilising the majority of his previously increased credit limit, which could be a sign of financial difficulty that he was relying on nearly all of the available credit.

The data from the CRA shows that Mr Y had taken out three short term loans in the three months prior to the credit limit being increased to £1,500. As this was not an isolated incident, this could also show that Mr Y was struggling financially by having to take out short

term loans frequently, especially as the data from the CRA only six months earlier showed he had no short term loans in the three months prior.

So based on Mr Y's reliance on short term lending prior to the credit limit increase, I'm persuaded that Vanquis should have made further checks which were proportionate to ensure the increased credit limit would be affordable and sustainable for Mr Y.

There's no set way of how Vanquis should have made further proportionate checks. I've noted they've said they wouldn't ask for bank statements. But this wouldn't preclude them from making further proportionate checks when they can see a reliance on short term borrowing from Mr Y.

One of the things they could have done was to contact Mr Y to get an understanding of why he was recently taking out multiple short term loans. Or they could have asked for his bank statements as part of a proportionate check to ensure the lending was sustainable and affordable for him.

If Vanquis had done either of these things as part of a proportionate check, then I'm persuaded it would have come to light that Mr Y was struggling financially and he was relying on short term credit to meet his outgoings.

I say this as Mr Y has provided his bank statements for the three months leading up to the September 2013 credit limit increase, which Vanquis could have requested as part of a proportionate check.

The bank statements show that Mr Y is often overdrawn. There was only around five days in total across the three month period that Mr Y was not using his overdraft, and that was immediately when he was paid, and then he would be overdrawn again a day or two later, until he was paid again. His income appears to be substantially less than what he told Vanquis his salary was as part of his initial application.

There were three payday loans which credited his account for £100 twice and £90 once over these three months. So Mr Y had to borrow even relatively small amounts to meet his outgoings. This would not be sustainable. Because of the overdraft usage and reliance of payday loans, Mr Y was effectively using borrowings to pay his borrowings, which again, wouldn't be sustainable.

So if Vanquis had communicated with Mr Y to find out more about his financial position as part of a proportionate check based on the information from the CRA about the multiple short term loans he opened prior to the credit limit increase, I'm persuaded they wouldn't have increased the credit limit to £1,500.

So I can't conclude that the checks Vanquis completed when they increased Mr Y's credit limit to £1,500 were proportionate, and based on what proportionate checks would have shown, I'm persuaded Vanquis made an unfair lending decision in increasing the credit limit to £1,500 here.

Further credit limit increases

If Mr Y's credit limit was not increased to £1,500, I think there is an argument for saying that Mr Y's complaint about the subsequent lending decisions should be upheld without making a finding on reasonable and proportionate checks. After all, if matters had played out as the evidence suggests they should have done in September 2013, I'm not persuaded Mr Y would've been able to add to the credit.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed at the end of this decision results in fair compensation for Mr Y 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 invited both parties to let me have any further submissions before I reached a final decision. Both parties accepted the provisional 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.

As neither party have provided me with any further information to consider, then my decision and reasoning remains the same as in my provisional decision.

Putting things right

In my provisional decision I said I intend to uphold this complaint in part. I said I intend to ask Vanquis Bank Limited to take the following actions:

Vanquis should arrange to transfer any debt back to themselves if it has been passed to a debt recovery agent or liaise with them to ensure the redress set out below is carried out promptly.

End the agreement and rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied to balances above £1,000 after 16 September 2013;

If the rework results in a credit balance, this should be refunded to Mr Y along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Vanquis should also remove all adverse information regarding this account from Mr Y's credit file recorded after 16 September 2013;

Or, if after the rework the outstanding balance still exceeds £1,000, Vanquis should arrange an affordable repayment plan with Mr Y for the remaining amount. Once Mr Y has cleared the balance, any adverse information recorded after 16 September 2013 in relation to the account should be removed from his credit file.

I'm still satisfied this is a fair outcome for the reasons given previously

**If Vanquis considers that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mr Y how much they've taken off. They should also give Mr Y a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.*

My final decision

I uphold this complaint in part. Vanquis Bank Limited should settle the complaint in line with the instructions in the "putting things right" section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Y to accept or reject my decision before 10 October 2024.

Gregory Sloanes
Ombudsman