

## The complaint

Mr O is complaining about Vanquis Bank Limited because he says it lent irresponsibly by providing him with a credit card he couldn't afford and then going on to increase the credit limit.

## What happened

In December 2017, Mr O opened a credit card account with Vanquis. The initial credit limit was £500 and this was increased to £1,000 in March 2018, £1,500 in August 2018 and £2,500 in March 2020. I understand the account has since defaulted.

Vanquis concluded that its decisions to open the account and offer credit limit increases in March and August 2018 were reasonable. But it did accept the final increase shouldn't have been given and offered compensation.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be partly upheld. My reasons were as follows:

*Before lending to Mr O, 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 O 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?*

*The rules, regulations and good industry practice in place at the time the credit was approved required Vanquis to carry out a proportionate and borrower-focused assessment of whether Mr O could afford the repayments. This assessment also had to consider whether the credit could be repaid sustainably. In practice this meant Vanquis had to satisfy itself that making payments to the credit wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of him making payments, it had to consider the impact of the repayments on Mr O.*

*The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.*

*I'll now look at each of Vanquis' lending decisions in turn.*

#### *Application in December 2017*

*Vanquis has described the information it gathered to assess whether Mr O's credit was affordable before it was approved. This included information contained in his application, including his income, and information obtained from a credit reference agency (CRA), giving details of his existing credit arrangements and any past issues with credit.*

*In making his application, Vanquis' records indicate Mr O declared his annual income was £26,000. In respect of his existing commitments, its credit check showed he had existing debt of around £4,000 with no recent history of arrears or defaulted accounts.*

*After considering this information carefully, I don't think there was any indication Mr O was struggling financially at this point. He wasn't heavily indebted compared to his declared income and seemed to be managing his existing commitments well. Given the amount being borrowed at this stage was relatively low, I'm satisfied Vanquis completed appropriate checks before lending on this occasion.*

*I've also considered Vanquis' lending decision based on the information obtained from what I believe to have been a proportionate affordability assessment. In my view, it was entitled to believe the new credit repayments would be affordable for Mr O and that the decision to lend was a reasonable one.*

#### *Credit limit increase to £1,000 in March 2018*

*In addition to information obtained from a CRA, which showed Mr O's overall debt hadn't increased since the card was issued and that he was up to date with those commitments, Vanquis was also able to review how he was managing his credit card account in deciding whether to lend further. The account history shows that in the three months before the limit increase was applied Mr O had been making payments considerably higher than the minimum required and there's no record of him exceeding the credit limit or missing payments.*

*As above, I think the information Vanquis obtained showed no evidence Mr O might be struggling and he appeared to be managing his existing commitments well. In view of the amount being lent, I'm satisfied Vanquis carried out a proportionate affordability assessment and that the decision to lend was reasonable.*

#### *Credit limit increase to £1,500 in August 2018*

*After carefully reviewing the information Vanquis had available, including information from the CRA and Mr O's management of his Vanquis account, I think there were factors that should have prompted it to carry out further checks before offering to increase the credit limit on this occasion and I don't agree the affordability assessment was reasonable and proportionate. In saying this, I'm conscious Mr O's overall debt was still relatively low but I think a combination of the following factors should have prompted further investigation:*

- only a short period of time had passed since the last limit increase but Mr O appears to have spent up to the new limit very quickly and the card was essentially maxed out for the three months before August 2018;*
- Mr M had only made the minimum payments to his Vanquis account over the three months prior to August 2018;*

- *Mr M had taken cash advances totalling £220 in the period before August 2018. Credit cards are an expensive way to get cash and using a card in this way can be a sign of financial difficulty; and*
- *the credit limit being offered was now becoming more significant.*

*On balance, I don't agree the checks carried out by Vanquis constituted a reasonable and proportionate affordability assessment on this occasion. I can't know exactly what further checks it might have carried out at the time, but I think a consideration of Mr O's actual income and expenditure would have been reasonable. So we've obtained copies of his bank statements for the period prior to the lending to establish what information could reasonably have been discovered.*

*A review of the statements shows Mr O's average income from employment was around £1,450. While the account didn't go into overdraft during this period, the balance was close to £0 immediately before each monthly payday and it wouldn't have been clear that further credit repayments were affordable. The statements also show Mr O was gambling fairly extensively and I counted 19 gambling transactions over a period of just over two months.*

*Taking everything into account, if Vanquis had seen this information in addition to what it already had, I currently think it should have concluded that it wasn't responsible to lend further to Mr O at this time. I'm therefore proposing to uphold the complaint about this lending decision.*

*Credit limit increase to £2,500 in March 2020*

*Vanquis has already concluded this credit limit increase shouldn't have been offered and I'm not seeking to dispute that conclusion here.*

*In summary*

*It's for these reasons that I'm currently proposing to partly uphold this complaint. While I'm satisfied Vanquis made reasonable decisions to accept Mr O's original application and apply the first credit limit increase in March 2018, I don't think the increases in August 2018 and March 2020 should have been offered. I realise this outcome may be somewhat disappointing for Mr O, but I'm satisfied it's fair and reasonable in the circumstances and I hope the additional explanation provided is helpful.*

Both parties accepted my provisional decision without further comment.

### **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 has made any further submissions in response to my provisional decision], my findings haven't changed from those I set out previously.

### **Putting things right**

The principal aim of any award I make must be to return Mr O to the position he'd now be in but for the errors or inappropriate actions of Vanquis. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think Vanquis should have lent to Mr O in August 2018 or March 2020, I don't think it's fair for him to pay interest or charges on the amounts borrowed. But he has had use of the money that was lent, so I think it's fair he repays the amount borrowed (without the addition of interest or charges).

To put things right, Vanquis should take the following steps:

- Rework the account to remove all interest, fees, charges and insurances (not already refunded) that have been applied since the limit increase in August 2018 on balances over £1,000.
- If the reworking results in a credit balance, this should be paid to Mr O with the addition of simple interest at 8% per year from the date of each overpayment to the date of settlement.

HM Revenue & Customs (HMRC) requires Vanquis to deduct tax from any interest. It must provide Mr O with a certificate showing how much tax has been deducted if he asks for one. If Vanquis intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

- Or, if after the reworking there's still an outstanding balance in excess of £1,000, Vanquis should arrange an affordable payment plan with Mr O for the shortfall.
- Remove any adverse information recorded on Mr O's credit file after August 2018 relating to this credit, once any outstanding balance over £1,000 has been repaid.

If Vanquis no longer owns the debt, it should liaise with whoever does to ensure any payments Mr O has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

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, I'm satisfied the redress I have directed above results in fair compensation for Mr O 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.

### **My final decision**

My final decision is that I partly uphold this complaint. Subject to Mr O's acceptance, Vanquis Bank Limited should now put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 1 November 2024.

James Biles  
**Ombudsman**