

The complaint

Ms G says Vanquis Bank Limited irresponsibly lent to her.

What happened

Ms G took out a credit card from Vanquis in December 2018. She was given a credit limit of £1,000. This was increased as set out below.

credit limit increase	date	value, £
1	04/04/2019	£1,500
2	23/08/2019	£2,500
3	25/05/2021	£3,750
4	24/09/2021	£4,250
5	23/02/2022	£5,000

Ms G says she opened this card as her family's circumstances were very difficult at the time. She had a large overdraft, other borrowings, and at times relied on payday loans. The credit limit increases made things worse, this has impacted her mental health.

Vanquis says it carried out adequate checks that showed the credit would be affordable for Ms G at each stage.

Our investigator did not uphold Ms G's complaint. He said the lender's checks were proportionate and it made fair lending decisions based on the information it collected.

Ms G disagreed and asked for an ombudsman's review. She said better checks would have shown she was already spending a significant proportion of her income on credit and she could not afford to take on more debt.

I reached a different conclusion to the investigator so I issued a provisional decision to give everyone a chance to comment. An extract follows and forms part of this final decision.

I asked for any comments by 14 October 2024.

Extract from my provisional decision

I can see Vanquis reviewed certain information before lending to Ms G. At the point of application it asked Ms G about her annual income and her employment status. It carried out credit checks to understand her credit history and existing credit commitments. At the time of the limit increases Vanquis refreshed its credit checks and reviewed Ms G's internal account management. It completed an income and expenditure analysis. From these checks combined Vanquis calculated the amount of credit that would be affordable for Ms G.

Application and initial limit of £1,000

I think these checks were proportionate and I think Vanquis made a fair lending decision based on the information it gathered. Ms G declared an annual income of around £34,000. She had debt of £15,600, all her active accounts were up to date, with no missed payments in the prior year. As using the full limit would mean Ms G needed to repay £50 a month I think it was reasonable for Vanquis to conclude this would be affordable based on what it learnt.

Limit increases 1 and 2

Again I think the checks at these times were proportionate and Vanquis made fair lending decisions. Ms G's external debt had not risen in April 2019 and whilst it had reached around £19,000 in August 2019 she was still meeting all her contractual repayments. And Vanquis knew by this time that Ms G had no housing costs as her employer paid them. Its income and expenditure analysis showed Ms G had disposable income of £465 and £759 respectively.

It follows I don't think Vanquis was wrong to increase Ms G's limit in April or August 2019.

Limit increases 3, 4 and 5

I am not satisfied that the same checks were proportionate at this stage given the value of the limit offered relative to Ms G's income. I think Vanquis needed to complete a fuller financial review and verify the inputs it was using for the income and expenditure analysis.

In cases like this we look at bank statements for the three months prior to the lending decision. I am not saying Vanquis needed to do exactly this but it is a reliable way for me to understand what better checks would most likely have shown.

Ms G's debt had grown through 2020 but a substantial gift in March 2021 allowed her to clear some of this debt. By April 2021 she had £18,374 of debt outstanding which would likely have cost her around £919 each month. Her fixed living costs with direct debits in place were around £555 – this does not include groceries and travel. Her salary was £1,648.96 and whilst there were other incomings, I cannot see they were fixed or guaranteed on a monthly basis. She was transferring in significant amounts from her savings to make ends meet but under CONC 5.2A.12 I would remind Vanquis that it cannot consider this as available income unless the applicant has indicated clearly an intention to repay using their savings. I have seen no evidence of that here.

So overall I think Ms G had around £174 a month from which to fund her groceries, travel and any unexpected or seasonal costs. So I don't think she had the disposable income needed to support any increase in her credit costs.

It follows I find Vanquis was wrong to offer Ms G the third credit limit increase, and logically the subsequent limit increases given that there was no uplift in her income or significant reductions in her outgoings.

I then set out what Vanquis would need to do to put things right.

Ms G accepted my provisional decision. Vanquis did not respond.

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 approach to unaffordable/irresponsible lending complaints is set out on our website and I have followed it here.

As neither party sent in any comments or new information I have no reason to depart from the findings or conclusion set out in my provisional decision.

So for the reasons set out above I find Vanquis was wrong to offer Ms G the third credit limit

increase, and the subsequent limit increases.

Putting things right from limit increase three onwards

As Ms G has had the benefit of the money lent to her it is fair she should repay the capital borrowed, but she has also paid interest and charges on three limit increases that should not have been given.

So Vanquis must:

1. Refund all the interest and charges Ms G has paid on balances above £2,500 from 25 May 2021 onwards.
2. If the borrowing is still in place, Vanquis must reduce the outstanding capital balance by the amount calculated at step 1.
3. If, after step 2, there remains an outstanding capital balance, Vanquis must ensure that it isn't subject to any historic or future interest and/or charges. But if step 2 leads to a positive balance, the amount in question should be given back to Ms G and 8% simple interest* should be added to the surplus.
4. Once Ms G has cleared any outstanding capital balance, any adverse information recorded after 25 May 2021 in relation to the account should be removed from her credit file.

*HM Revenue & Customs may require Vanquis to take off tax from this interest. If it does, Vanquis must give Ms G a certificate showing how much tax it's 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.

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 Ms G in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

I am upholding Ms G's complaint in part. Vanquis Bank Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 12 November 2024.

Rebecca Connelley
Ombudsman