

The complaint

Mrs P complains that Vanquis Bank Limited lent irresponsibly when it approved her application for a credit card and later increased the credit limit.

What happened

Mrs P applied for a credit card with Vanquis in February 2018. Vanquis approved the application and gave Mrs P a credit card with an initial credit limit of £500. In June 2018 the credit limit was increased to £1000 and in January 2021 the credit limit was increased to £2350.

Mrs P complained that Vanquis had lent to her irresponsibly. Vanquis didn't uphold the complaint. It said it had carried out reasonable and proportionate checks and that it was satisfied that the lending was affordable for Mrs P.

Mrs P remained unhappy and brought her complaint to this service.

Our investigator upheld the complaint. He said that although he thought that Vanquis had made a fair lending decision in relation to the account opening, he didn't think Vanquis had carried out reasonable and proportionate checks at the time of the first credit limit increase. The investigator concluded that the first and second credit limit increases weren't fair lending decisions.

Vanquis didn't agree so I've been asked to review the complaint.

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.

We've set out our approach to complaints about irresponsible and unaffordable lending including the relevant rules, guidance and good industry practice on our website. I've had this approach in mind when considering Mrs P's complaint.

Having done so, I've reached the same conclusion as the investigator. I'll explain why I've reached this decision.

Vanquis needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this means that it needed to carry out reasonable and proportionate checks to make sure Mrs P could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of things, such as how much was being lent, the repayment amount, Mrs P's borrowing history and her income and expenditure.

Account opening February 2018

Vanquis has provided details of the checks it carried out before it gave Mrs P the card. I've reviewed these checks to decide whether the checks were reasonable and proportionate.

Vanquis carried out a credit score and affordability assessment using credit reference agency data. It also used the information Mrs P had provided on her application. Vanquis discovered that Mrs P was employed full time with an annual income of £20,000.

The credit check showed that Mrs P had 4 other credit accounts with a total of around £900 outstanding. It also showed that Mrs P was a joint mortgage holder. The credit check showed a default registered 71 months ago. It also showed some information which indicated that the mortgage payments had been missed or paid late.

Looking at the checks that Vanquis carried out, I'm satisfied that they obtained a reasonable amount of information. The initial credit limit on the account was relatively low at £500. Taking this into account, I think the checks were reasonable and proportionate.

I've gone on to consider whether the lending decision was fair, in the light of the information obtained from the checks. In doing so, I've had regard to whether the lending was affordable for Mrs P.

Based on what I've seen, I think it was fair for Vanquis to assess the lending as affordable. I say this because the checks that Vanquis carried out showed that Mrs P's was likely to be able to sustainably meet the monthly repayments on the card based on a credit limit of £500.

1st credit limit increase June 2018

The credit limit was increased to £1000 around 4 months after Mrs P opened the account.

Vanquis carried out a credit check and looked at how Mrs P had managed the account.

The credit check showed that Mrs P was 2 months behind with payments on one of her other credit accounts.

Vanquis could also see that Mrs P had missed a payment on the account in May 2018. The reason recorded by Vanquis for this was overcommitment. Mrs P had also cancelled her direct debit in May 2018 and had utilised almost all the available credit limit on the card since opening the account, with the balance in May 2018 being £495.97.

Based on what I've seen, I don't think Vanquis carried out reasonable and proportionate checks when it increased the credit limit. I say this because the way in which Mrs P had managed the account – the missed payment due to overcommitment and the utilisation of almost all the credit limit - ought to have given Vanquis cause for concerns and prompted them to carry out further checks.

I've gone on to consider what reasonable and proportionate checks would have shown had they been carried out.

This service asked Mrs P to provide bank statements for the three months leading up to the credit limit increase, in order to get a picture of her overall financial situation. Mrs P wasn't able to provide these.

Despite this, I don't think the lending decision was fair, based on the available information. I say this because Mrs P had only had the card for 4 months and in that time, she had missed a payment, cancelled her direct debit and utilised almost all of the available credit limit. The credit check also showed that Mrs P was behind with her other credit commitments.

In the circumstances, I don't think Vanquis carried out reasonable and proportionate checks before the 1st credit limit increase, and I don't think the lending decision was fair.

2nd credit limit increase January 2021

Because I've found that the 1st credit limit increase was unfair, it follows that I don't think the 2nd credit limit increase was fair either, because the credit limit shouldn't have been increased beyond £500.

I've reviewed the account at the time of the 2nd credit limit increase. Mrs P had incurred 3 late payment fees in the months leading up to the increase. She was also utilising most of the credit limit.

Putting things right

Because I don't think Vanquis made a fair lending decision when it increased the credit limit above £500, I don't think it's fair to apply interest and charges on any balance exceeding £500.

That said, Mrs P has had the benefit of the money she's spent on the account, so I think it's fair that she repays this.

To put things right, Vanquis should:

Rework the account removing all interest, fees and charges (not already refunded) applied to balances above £500 after 22 June 2018.

If the rework results in a credit balance, this should be refunded to Mrs P along with 8% simple interest per annum * calculated from the date of each overpayment to the date of settlement. Vanquis should also remove all adverse information recorded after 22 June 2018 in relation to this account from Mrs P's credit file.

If after the rework the outstanding balance exceeds £500, Vanquis should arrange a repayment plan with Mrs P. Once the outstanding balance is cleared, any adverse information recorded after 22 June 2018 in relation to this account should be removed from Mrs P's credit file.

*HMRC require Vanquis to deduct tax from any award of interest. It must give Mrs P a certificate showing how much tax has been taken off if she asks for one.

I've also considered whether Vanquis acted unfairly or unreasonably in some other way given what Mrs P has complained about, including whether its relationship with her might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied that the redress I've directed above results in fair compensation for Mrs P 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

My final decision is that I uphold the complaint. Vanquis Bank Limited must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 6 December 2024.

Emma Davy
Ombudsman