

The complaint

Mr S complains that Santander UK Plc approved a credit card for him together with a credit limit increase and he could not afford to make the repayments.

What happened

The card was approved for Mr S in March 2017 with an original credit limit of £2,200.

Mr S complained in November 2023, and Santander issued its final response letter (FRL) in December 2023. In that FRL it did not uphold his complaint. Mr S was not content and he referred it to the Financial Ombudsman Service. One of our investigators considered it and thought that the card ought never to have been approved for Mr S.

Santander reviewed our investigator's view and the details it had about Mr S' credit card. It said that it did not agree that it had lent irresponsibly by approving the card for Mr S in March 2017. However, it agreed that the credit limit increase to £3,200 in September 2019 ought not to have been done for Mr S. It said:

'I am happy to agree to uphold the complaint based on the decision to increase the customers credit limit on 18/09/2019, I think it is fair to refund any fees and charges incurred on balances over the original limit of £2,200 from 18/09/2019, when the limit was increased to £3,200.'

So, Santander was not content with the investigator's view and Mr S was not content with Santander's response to uphold part of his complaint. It was passed to me to decide.

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 general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance, and good industry practice - on our website and I've taken that into account when I have considered Mr S' complaint.

Santander needed to take reasonable steps to ensure that it didn't lend irresponsibly to him. In practice this means that it needed to carry out proportionate checks to make sure Mr S could afford to repay the additional credit he was being given in a sustainable manner. These checks could consider several different things, such as how much was being lent, the repayment amounts and Mr S' income and expenditure.

In the early part of the lending relationship, we might think Santander would have needed to do more if, for example, a borrower's income was low or the amount lent was high. The longer the lending relationship goes on, the greater the risk of a consumer having a change in their financial circumstances, leading to the lending becoming unsustainable and the borrower getting into financial difficulty. So, we'd expect a lender like Santander to be able to show that it didn't make the decision to lend or continue to lend to a customer irresponsibly.

In 2017, Mr S applied for the card and when approved it had a 0% interest promotional offer attached to it for 27 months. I have considered this as part of my review of the complaint but this 0% period will affect redress: whether the card was approved responsibly is what I am being asked to consider.

And I have not investigated the credit limit increase part of the complaint as Santander has accepted that it ought to put things right for Mr S in relation to that lending decision.

When Mr S applied for the card he declared an annual income of £20,000, accommodation costs each month of £600, and that he had no other credit costs. Santander has explained that it carried out a credit bureau search and it used Office of National Statistics (ONS) data to come to the following conclusions in March 2017 – that Mr S' existing credit commitments were £28 and his total monthly commitments were £1,269.

£20,000 a year income before tax translates into £1,666 a month before tax.

I note that our investigator has focussed on the fact that Santander would have had access to Mr S' current account (joint with his wife) and therefore had access to how that account was run. Mr S' salary was paid into it from another account (held at a different bank) and that joint account appears to be used to pay for household bills and other items.

I have reviewed the other account Mr S has also shown us. Mr S used that other bank account for nothing other than to receive his salary and then to transfer it immediately to the joint Santander current account.

Knowing that Santander would have had access to this detailed income information, to satisfy myself as to what Mr S was receiving after tax, I added up the salary payments for three months up to the card approval date - 22 March 2017 - as follows:

- from 3 February 2017 to 2 March 2017 and it came to £1,690.
- from 4 January 2017 to 2 February 2017, it came to £1,290
- from 2 December 2016 to 3 January 2017, it came to £1,450

So, the average income after tax for Mr S over those three months was £1,476.

Using the Santander calculation of his total monthly commitments then it seems that Mr S would have had around £207 left over each month.

My view is that Santander would have known of these details about Mr S' income, and if it did not check this by looking at his bank statement transactions Mr S held with it I think it ought to have done. From that it would have been able to work out that he was permanently in his overdraft, and his average salary and disposable income was as I've set out above. Added to which Santander would have known of at least three direct debit reversals all on 2 February 2017 which I do consider to be the sign of being overindebted and not able to meet his regular payments.

I consider that Santander would have had knowledge of that current account and I agree with it, use of and ownership of an overdraft does not necessarily – on its own - preclude an applicant from receiving additional credit in the form of a credit card. However, in Mr S' circumstances when his income after tax hardly covered the figure Santander had calculated to be his monthly expenditure amount (£1,269), plus he had the cost of the overdraft, and the new cost of the credit card then I consider that the approval of the credit card with an initial credit limit of £2,200 was irresponsible. Considering the FCA CONC rules and

guidance, I do not consider that Mr S was going to be able to pay the £2,200 credit limit down in a reasonable time without having to borrow further.

I uphold the complaint.

Putting things right

My understanding is that the card account has been in Santander's Collections department from November 2023, it defaulted in April 2024 and closed that same month. Mr S may be on a repayment plan now. Recently the debt was sold to a third party and the outstanding balance was £3,137.

Having carefully considered everything, I think it would be fair and reasonable, in all the circumstances of Mr S' complaint, for Santander to put things right in the following way and to do that it either needs to buy the debt back and deal with it 'in house', or it needs to liaise with the third party debt owner to ensure that these adjustments are carried out.

- rework Mr S' card balance to ensure that all interest, fees, and charges added from the outset are refunded (including any third party fees added to it)

If an outstanding balance remains on Mr S' account once these adjustments have been made Santander should contact Mr S to arrange a suitable repayment plan if he's not on one already.

- in the unlikely event that the effect of these adjustments results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr S along with 8% simple interest* on the overpayments from the date they were made until the date of settlement.

If no outstanding balance remains on Mr S' account after all adjustments have been made, then Santander should remove any adverse information it has recorded from Mr S' credit file or arrange for the third party to do that.

A default has been applied to the credit card account and it's not always practical or possible to put the consumer back into the position he would have been if the credit had never been approved. Where an outstanding balance remains, or will remain, after all interest, fees and charges adjustments have been made we won't usually tell a lender to remove any adverse information such as a default. This is because an outstanding balance will remain and the consumer will normally be expected to repay this.

*HM Revenue & Customs usually requires Santander to take off tax from this interest. It must give Mr S a certificate showing how much tax it has taken off if he asks for one.

I've considered whether the relationship between Mr S and Santander might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Mr S results in fair compensation for him 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

I uphold the complaint. I direct that Santander UK Plc does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 8 January 2025.

Rachael Williams
Ombudsman