

The complaint

Mr H complains that Vanquis Bank Limited lent irresponsibly when it approved two credit card applications he made. Mr H also complains Vanquis increased the credit limit on one of the credit cards.

What happened

Mr H applied for a credit card with Vanquis in September 2014. In his application, Mr H said he was employed full time with an income of £36,000. Vanquis carried out a credit search and found Mr H had a mortgage with monthly repayments of £645 a month. Vanquis found a default on Mr H's credit file that was around four years old and that he had an overdraft with an outstanding balance of around £100. Vanquis went on to approve Mr H's application and issued a credit card with a limit of £500.

Vanquis increased the credit limit to £1,000 in March 2015, £1,750 in August 2015 and £2,250 in August 2017. Mr H used the Vanquis credit card and cleared the balance in full in August 2016. No further transactions were completed from that point and the credit card was closed in September 2017, the month after the final credit limit increase.

In February 2023 Mr H applied for a new credit card with Vanquis. In his application, Mr H said he was employed with an income of £56,900. Vanquis carried out another credit search and found Mr H was making repayments to other unsecured debts of £1,083 a month with outstanding balances totalling around £24,000. Vanquis calculated Mr H received around £3,450 after deductions in pay each month. Vanquis deducted Mr H's credit commitments of £1,083, cost of living estimate of £665 and monthly repayments to its new credit card of £47. Vanquis' lending data says it found Mr H had a disposable income of £1,449 each month. No deductions appear to have been made for Mr H's mortgage payments within the lending data provided.

Vanquis says it applied its lending criteria and approved a credit card with a limit of £1,000. Mr H used the credit card until June 2023 when the balance was cleared in full. The account was then closed.

Earlier this year, representatives acting on Mr H's behalf complained Vanquis lent irresponsibly when it approved his credit card applications and increased the credit limit. No final response was issued and Mr H's representatives referred his complaint to this service.

An investigator partially upheld Mr H's complaint. They the Vanquis' decisions to approve Mr H's application in September 2014 and increase the credit limit to £1,000 in March 2015 and £1,750 in August 2015 were reasonable based on the information it obtained and didn't agree it lent irresponsibly. The investigator said the decision to increase the credit limit beyond £1,750 wasn't reasonable based on the information Vanquis had available and asked it to refund all interest, fees and charges applied on balances over £1,750 from August 2017 onwards.

The investigator upheld Mr H's complaint about the second credit card, opened in February 2023. They thought that the increase in Mr H's unsecured debts held on credit cards

between applications showed he'd become reliant on credit to make ends meet. The investigator thought Vanquis should've carried out better checks and looked at Mr H's bank statements for the months before his application was approved. The investigator noted Mr H's overdraft was being consistently used and didn't agree further borrowing with Vanquis was affordable in the long term. The investigator asked Vanquis to refund all interest, fees and charges applied to Mr H's second credit card.

Mr H's representatives accepted the investigator's recommendations but Vanquis didn't. As a result, Mr H's complaint has been passed to me to make a 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.

Before agreeing to lend or increasing the credit limit, the rules say Vanquis had to complete reasonable and proportionate checks to ensure Mr H could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

The information available from Vanquis from September 2014 is more limited than the information it's retained from Mr H's application in February 2023 due to the passage of time. But I can see Vanquis asked Mr H about his circumstances, including his income, and checked his credit file. Vanquis found a default on Mr H's credit file that was several years old. Mr H owed less than £100 in other unsecured debt and there were no obvious signs he was struggling. I can see Vanquis was aware of Mr H's mortgage payments of £645 a month and I'm satisfied he would've had capacity to sustainably manage repayments to a new credit card with a limit of £500. I haven't been persuaded Vanquis failed to carry out reasonable or proportionate checks before approving Mr H's credit card application or that it lent irresponsibly by providing a limit of £500.

Vanquis increased Mr H's credit limit to £1,000 in March 2015. Mr H's credit card had been well administered to that point, with all payments made on time. At this point, Mr H's other active unsecured credit appears to have been repaid in full and I can see he was making monthly repayments towards the defaulted account on his credit file. In my view, Mr H's credit file indicated his finances were in good order and didn't show signs of being overcommitted. I wouldn't have expected Vanquis to carry out a more comprehensive set of checks before approving the credit limit increase to £1,000. In my view, Vanquis completed reasonable and proportionate checks before increasing the credit limit to £1,000 and I haven't been persuaded it lent irresponsibly.

I can see our investigator upheld Mr H's complaint about the increased the credit limit to £2,250 in August 2017. The investigator asked Vanquis to refund all interest, fees and charges applied to Mr H's first credit card on balances over £1,750 from August 2017 onwards. I broadly agree that the lending checks should've gone further. But I think it's reasonable to note that Mr H's balance on the first credit card never exceeded £1,000, so no interest above that level was ever charged. The highest statement balance was £976 in August 2015 and no interest was ever applied to balances exceeding £1,750 on the first credit card.

As no interest was ever charged on balances over £1,750, there's been no financial loss to Mr H by increasing his credit limit beyond that. As a result, I'm not going to comment further on the final credit limit increase Vanquis approved on Mr H's first credit card.

Mr H's circumstances appear to have changed somewhat when he applied for the second credit card in February 2023. Mr H had around £24,000 of existing credit card debt at the time. Whilst Mr H gave an income figure of £56,900 in his application, I think credit card debt at that level should've been a warning to Vanquis Mr H may already have been at or beyond capacity for credit. And I note that when Mr H's application was assessed, no figure for his mortgage was used. The credit file information isn't clear as whilst a monthly payment was noted, the total outstanding balance was not. That, in itself, ought to have prompted further enquiries from Vanquis before it decided whether to lend.

As noted above, there was a range of options available to Vanquis to verify Mr H's circumstances. One option would've been to review Mr H's bank statements for the months before his application was made, which is what I've done. Mr H's bank statements show that at this time he wasn't earning £56,960 and was actually in receipt of benefits as his main form of income which were paid at a considerably lower level. Mr H's bank statements also show he was taking money transfer advances from his existing credit card providers and was consistently overdrawn. In my view, if Vanquis had looked at Mr H's bank statements it's more likely than not it would've found he wasn't in a position to afford a new credit card with a limit of £1,000 and declined his application. Based on the information I've seen, I think Vanquis lent irresponsibly when it approved Mr H's credit card application in February 2023. As a result, I'm going to uphold Mr H's complaint and direct Vanquis to refund all interest, fees and charges applied to Mr H's second credit card.

I've considered whether the business acted unfairly or unreasonably in any other way including 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 below results in fair compensation for Mr H 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 decision is that I uphold Mr H's complaint and direct Vanquis Bank Limited to settle as follows:

Credit card 1

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £1,750 from August 2017
- If the rework results in a credit balance, this should be refunded to Mr H 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 recorded after August 2017 regarding this account from Mr H's credit file.

- Or, if after the rework the outstanding balance still exceeds £1,750, Vanquis Bank should arrange an affordable repayment plan with Mr H for the remaining amount. Once Mr H has cleared the outstanding balance, any adverse information recorded after August 2017 in relation to the account should be removed from their credit file.

Credit card 2

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied
- If the rework results in a credit balance, this should be refunded to Mr H 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 H's credit file.
- Or, if after the rework there is still an outstanding balance, Vanquis should arrange an affordable repayment plan with Mr H for the remaining amount. Once Mr H has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

*HM Revenue & Customs requires Vanquis Bank to deduct tax from any award of interest. It must give Mr H a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 3 January 2025.

Marco Manente
Ombudsman