

The complaint

Mr S complains that Capital One (Europe) plc (Capital One) irresponsibly lent to him when agreeing to a credit card and subsequent credit limit increase.

In bringing his complaint Mr S is represented by a third party. For ease of reading I will only refer to Mr S in my decision.

What happened

In April 2018 Mr S applied for a credit card with Capital One. His application was successful and Capital One applied a credit limit of £750. In October 2018 Capital One increased Mr S' credit limit to £1,500. Mr S said he struggled to sustain the repayments and that Capital One should have checked further before agreeing to lend to him. He complained to them.

Capital One said Mr S had brought his complaint too late for his account opening complaint to be considered. But said their checks had been reasonable and proportionate when they agreed to increase his credit limit to £1,500.

Mr S wasn't happy with Capital One's response and referred his complaint to us.

Our investigator said we'd jurisdiction to consider both the account opening and credit limit complaints. He said Capital One's checks had been proportionate and reasonable and that they'd made a fair lending decision.

Mr S didn't agree and asked for an ombudsman 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.

I know my decision will be a disappointment for Mr S. But having done so I'm not upholding his complaint. I'll explain why.

I've considered the relevant rules, guidance and good industry practice when someone complains about irresponsible and/or unaffordable lending. There are two overarching questions I need to consider to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did Capital One complete reasonable and proportionate checks to satisfy themselves that Mr S would be able to repay the credit in a sustainable way?

a. if so, did Capital One make a fair lending decision?

b. if not, would reasonable and proportionate checks have shown that Mr S could sustainably repay the borrowing?

2. Did Capital One act unfairly or unreasonably in some other way?

So, before agreeing to approve or increase the credit available to Mr S Capital One needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

What's important to note is that Mr S was provided with a revolving credit facility rather than a loan. This means that Capital One was required to understand whether a credit limit of £750 could be repaid within a reasonable period, rather than all in one go. And a credit limit of £750 required relatively small monthly payments to clear the full amount owed within a reasonable period of time.

I've looked at what checks Capital One said they did when initially approving Mr S' application.

Capital One said they looked at information provided by credit reference agencies (CRA) and information that Mr S had provided before approving his application. They said they also considered Mr S' housing costs, and non-discretionary spending using statistical data.

The information showed that Mr S had declared a gross annual salary of £60,000 and was in full time employment. He'd an unsecured loan of around £8,000 repayable at £225 a month. A current account with an overdraft limit of £250 which wasn't being used, a credit card with a credit limit of £2,500 that had a balance of £2,595, a utilities and communications account.

Mr S didn't have any arrears on his active accounts. He'd an historic default of £7440 from a previous credit card in January 2016 which showed that this had reduced to an outstanding balance of around £4,900.

So, I'm satisfied that the checks Capital One carried out here, prior to approving the initial £750 credit limit were proportionate. As these gave Capital One a good understanding of Mr S' income and credit commitments. And showed his debt-to-income ratio was low. When entering into a regulated credit agreement for running account credit, Capital One should assume that Mr S would draw down the entire credit limit at the earliest opportunity and would be able to repay by equal instalments over a reasonable period. I'd expect that this would have seen Mr S have to pay around £38 a month. Given his income and credit history I think this would have been sustainable for him. So, I think Capital One made a fair lending decision to approve Mr S' application.

I've looked at the information available to Capital One when they increased Mr S' credit limit by a further £750 to £1,500 in October 2018. Added to the information that Capital One had available to them from the CRA they also could see how Mr S managed his credit card account he'd with them. Mr S' income was declared to be £60,000 per annum. He'd credit commitments of around £9,700 and a credit card of £2,600. Mr S was usually paying the minimum repayment on his credit card each month but occasionally paid more than this. Mr S did go over his credit limit and was charged an over the limit fee on one occasion. I haven't seen any evidence of Mr S missing or being late with his repayments.

Capital One's checks showed that Mr S had a more than modest income and that the extent of his existing borrowing wasn't such that it made any further lending automatically unreasonable. Mr S' credit file showed he was managing his credit commitments, and his previous default was being reduced over time. Whilst I've seen some evidence of over the limit payments, I haven't seen sufficient in Mr S' past use of credit from Capital One that should have led them to avoid providing further lending to him.

So, I'm satisfied that the checks Capital One carried out here, prior to approving the credit limit increase to £1,500 were proportionate. The increased limit would have meant Mr S would be indebted by around £37 more each month if he again drew down the full amount so a monthly repayment of around £75. Given his income and credit history I think this should have been sustainable for him. So, I'm satisfied Capital One made a fair lending decision to approve Mr S' credit limit increase to £1,500.

I can see that Mr S has been experiencing financial difficulties and a payment plan was agreed with Capital One. Although I'm not upholding this complaint, I'd like to remind Capital One of their obligations to exercise forbearance if they intend to collect any outstanding balance remaining on the account and it's the case Mr S is still experiencing financial difficulty.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. But for the reasons I've already given, I don't think Capital One lent irresponsibly to Mr S or otherwise treated him unfairly. I haven't seen anything to suggest that s140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 25 April 2025.

Anne Scarr
Ombudsman