DRN-5453523

The complaint

Mr N complains Clydesdale Bank Plc trading as Virgin Money's (Virgin) decision to lend to him was unaffordable for him. He says had Virgin verified his income and gained an understanding of his actual expenditure, which he believes they should have done, they wouldn't have agreed to provide him with the credit limit they did.

What happened

In October 2022, Mr N applied for a credit card with Virgin. His application was approved with a credit limit of £4,000. Upon acceptance, Mr N's account had a 0% promotional interest rate on purchases for the first 12 months.

In December 2023, Mr N failed to meet his monthly repayment. That same month, Mr N complained to Virgin that they didn't complete appropriate affordability checks before agreeing to lend to him and that they shouldn't have approved the credit limit for him that they did.

In February 2024, Virgin sent Mr N their final response, but they didn't uphold his complaint.

In summary, Virgin said they'd reviewed information provided by Mr N and from the Credit Reference Agencies (CRA's) alongside their lending criteria. And based upon their assessment, an appropriate and affordable credit limit was assigned.

Mr N disagreed with Virgin's response, so he referred his complaint to our service.

One of our Investigators looked into things and thought the checks Virgin carried out prior to approving Mr N's credit limit were proportionate. And because Virgin's checks suggested Mr N had enough disposable income to afford the monthly repayments should he have drawn down the whole limit straight away, he didn't think they'd done anything wrong by agreeing to lend to him.

Mr N disagreed with our Investigator that Virgin's checks were proportionate when considering both his income and the significant credit limit they approved for him. He said the Current Account Turnover (CATO) check Virgin completed was limited and instead they ought to have verified his actual income and expenditure.

Mr N also said there were signs such as the amount of existing credit he owed in comparison to his income which also meant Virgin should have done more and that had they done, such as reviewed his bank statements, they'd have seen the lending was unaffordable.

Our Investigator's view remained unchanged. Because no resolution could be reached, this case has been 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.

Having done so, although I appreciate it'll be a disappointment to Mr N, I'm not upholding his complaint and for much the same reasons as our Investigator. I'll explain why.

How we handle complaints about irresponsible and unaffordable lending is explained on our website. It's this approach I've used when deciding Mr N's complaint. Virgin needed to ensure that they didn't lend irresponsibly, which in practice means they needed to carry out proportionate checks to be able to understand whether any lending was affordable for him before agreeing to provide the credit.

The rules that apply to credit agreements are set out in the FCA's consumer credit sourcebook (CONC). Section 5.2A of CONC is relevant here, as – among other things – it talks about the need for businesses like Virgin to complete reasonable and proportionate creditworthiness assessments before agreeing to lend someone money.

I've considered these rules by asking the following questions:

- Did Virgin complete reasonable and proportionate checks to satisfy themselves Mr N would be able to meet the repayments of the borrowing without experiencing significant adverse impact on his financial situation?

- If they did, was their decision to lend to Mr N fair?

- Did Virgin act unfairly or unreasonably in any other way?

<u>Did Virgin complete reasonable and proportionate affordability checks?</u>

What's considered reasonable and proportionate in terms of the checks a business undertakes will vary depending on the details of the borrowing and the consumer's specific circumstances at the time.

Here, Virgin approved a credit card for Mr N with a limit of £4,000. This meant under normal circumstances I'd say if Mr N was to have utilised the full £4,000 limit straightaway, he would have needed to have made monthly repayments of around £320 to have paid back the borrowing within a reasonable period of time. In this case though, the initial payments would've been slightly less due to no interest being added to any of the borrowing for the first 12 months.

That said, Virgin approved a substantial credit limit for Mr N and monthly repayment I think they ought to have factored regardless of the interest free period was not an insignificant amount, so my starting point is that I'd expect to see Virgin to have gained a good understanding of Mr N's situation.

At the time of his application, Mr N declared his annual income as being £59,999 and that he'd been with his current employer for a year. He also declared he was paying around £890 a month toward rent or mortgage payments.

Virgin completed a CRA check to verify Mr N's net monthly income as being £3,604. I've thought carefully about what Mr N said, that the check Virgin completed took into account his current account turnover as a whole, not just his actual income.

But here Virgin weren't using the check to estimate Mr N's income blindly. Instead, he'd told them his annual salary and the information Virgin's check returned supported the income figure he'd declared to them. So, I'm satisfied in the circumstances of this case Virgin went far enough to verify Mr N’s declared income and to satisfy themselves they could rely on it.

In addition to the information Mr N declared, Virgin also completed a credit check to help them understand how he managed both his current and existing finances.

The check showed Virgin Mr N had nine active credit accounts, none of which had County Court Judgements or defaults against them. All nine accounts were being managed well with no evidence of arrears at the time. Virgin also saw Mr N had not opened any new credit facilities, nor had he taken any cash advances in the three months prior to the application.

From the information they were provided, Virgin also understood Mr N’s existing credit liability to be around £56,000 and that his commitment to repay his existing credit was around £880 a month. Virgin also took into consideration other living expenses such as council tax and calculated his disposable income to be around £940 a month.

So, in summary, I wouldn’t expect Virgin to do more in the circumstance’s given the credit check result showed them Mr N’s overall finances were managed well. Virgin verified his income and took into consideration his actual existing credit commitments, alongside using some living costs from the information both declared by Mr N and obtained from the CRA’s. I’m satisfied this gave Virgin a good picture as to how Mr N was managing his finances.

Overall, I think Virgin completed reasonable and proportionate checks and from all the evidence and information they gathered, I’m satisfied what they saw allowed them to fairly assess if the credit provided was affordable and sustainable for Mr N.

But this doesn’t automatically mean Virgin went on to make a fair lending decision – it’s this I’ll go on to look at next.

<u>Did Virgin make a fair lending decision?</u>

Virgin verified Mr N’s net monthly income and found the figure matched the equivalent annual income figure declared by him at the time of the application.

In addition, when calculating Mr N’s disposable income, Virgin used a combination of his actual existing credit commitments alongside expenditure data for things like rent or mortgage and council tax provided by him within the application and/or by the CRA’s.

Virgin’s checks haven’t shown me they considered Mr N’s other living expenses such as food and utilities. But the amount of disposable income they calculated significantly exceeded the worst-case commitment Mr N would’ve been required to make towards to new borrowing should he have utilised to the full £4,000 straightaway. So I’m satisfied the repayment was well within the affordability capacity Virgin had calculated despite them not doing a complete review of his expenditure.

In summary, as I’ve said, I’m satisfied Virgin’s checks were reasonable and proportionate. And I’m also satisfied they made a fair lending decision based on the outcome of those checks so I’m not upholding this complaint.

<u>Did Virgin act unfairly or unreasonably in some other way?</u>

I understand Mr N is facing financial difficulties with regard to managing his outstanding debt. He’s told Virgin he’s unable to afford the repayments and is looking for some kind of support.

I can see that Virgin have previously offered to complete an income and expenditure review with Mr N. Virgin have also said they've tried to reach out to Mr N following his suggestion they freeze the interest on his account and arrange a plan, but that they've been unable to make contact.

From the evidence I've seen, I've not seen anything to suggest Virgin have treated Mr N unfairly or unreasonably in any other way.

However, as it's clear Virgin are aware of Mr N's financial difficulties, I'd remind them of their responsibility going forward to treat him with forbearance and due consideration.

I've also considered whether Virgin acted unfairly or unreasonably in some other way given what Mr N has complained about, including whether it's relationship with him might have been unfair under s.140A Consumer Credit Act 1974.

However, for the same reasons I've set out above, I've not seen anything that makes me think this was likely to have been the case.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 19 June 2025.

Sean Pyke-Milne
Ombudsman