

The complaint

Mrs F complains that Clydesdale Bank Plc trading as Virgin Money (Virgin Money) acted irresponsibly in approving her credit card application as it wasn't affordable for her.

What happened

In April 2022 Mrs F applied for a credit card account with Virgin Money. Her application was successful and a credit limit of £4,000 was applied. Mrs F said she struggled to maintain the repayments, only making the minimum required. And was having to borrow elsewhere to meet her financial commitments. She complained to Virgin Money as she didn't think they'd checked her circumstances sufficiently before they agreed to lend to her. She said if they had they would have seen she was already heavily indebted and having to use her overdraft.

Virgin Money said they'd used Mrs F's application data, a credit reference agency (CRA) check and assessed her average living costs. Based on these checks Mrs F hadn't shown any financial vulnerability or that the lending wouldn't have been sustainable, so their lending decision had been fair.

Mrs F wasn't happy with Virgin Money's response and referred her complaint to us.

Our investigator said Virgin Money hadn't shown their checks were proportionate and reasonable. And that they should have done more. After checking Mrs F's bank statements she said the lending wasn't sustainable for Mrs F as she didn't have sufficient disposable income to maintain the repayments. She asked Virgin Money to:

- 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 Mrs F along with 8% simple interest per year calculated from the date of each overpayment to the date of settlement.
- Remove all adverse information regarding this account from Mrs F's credit file. Or,
- if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mrs F for the remaining amount. Once Mrs F has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

Virgin Money 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.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. I've considered this approach when deciding Mrs F's complaint. Having done so I uphold this complaint. I'll explain why.

Virgin Money needed to make sure they didn't lend irresponsibly. Meaning they needed to

carry out proportionate checks to be able to understand whether Mrs F could afford to sustain any repayments before advancing any credit.

Mrs F's credit card was a revolving credit facility, unlike personal loans, there isn't a fixed repayment, its open-ended credit where she could make use of a credit facility up to an agreed limit. And would be required to pay a minimum amount dependent on the amount of limit she'd used. In determining whether the lending was affordable for Mrs F Virgin Money was required to understand whether she could repay £4,000 within a reasonable period of time. With the assumption Mrs F would draw down the full amount of her credit at the earliest opportunity and so would be required to pay by equal instalments over a reasonable period. Which would be around £200 a month.

There isn't a specific set of checks that a lender is required to carry out, but the lender must undertake a reasonable assessment of creditworthiness and affordability. Affordability checks need to be proportionate taking into consideration factors such as – but not limited to – the size of the debt, the repayments, what the lender knew about the consumer, and the things the consumer told them about their circumstances. I've considered the checks Virgin Money said they did.

I can see from Virgin Money's application data that Mrs F had a declared income of £57,400. And a household income of £96,400. I can see Virgin Money calculated the affordability on Mrs F as an individual and not as a household. From this Virgin Money assessed Mrs F had a monthly income of £3,481.63. Virgin Money also checked with a CRA and assessed Mrs F had monthly credit commitments of £786. And her monthly essential spending was assessed at £1,040.38. This would have left Mrs F with a disposable income of £1,655.26. But I can also see from Virgin's application data that Mrs F had overall debt of £42,206 and her debt to income ratio (DTI) was 73.5%.

Although Virgin Money completed an affordability assessment when checking whether Mrs F could afford repayments on the £4,000 credit limit, I note there is no figure recorded for housing costs. I take on board Virgin's comments that none were declared by Mrs F on her application, neither were any shown on their CRA check.

Mrs F has provided her full credit file which should reflect the information Virgin Money could have seen from their CRA check. From this I can see she'd a credit card, a telecommunications account and she'd a recent unsecured loan for £12,000 taken out within three months of her credit card application. Mrs F also had an overdraft facility of £4,940.

As there weren't any housing costs factored into Virgin Money's assessment I don't think their checks here were proportionate. I think they should have checked into this further, especially given Mrs F's DTI was high alongside her recent borrowing history and high level overdraft facility I would have expected Virgin Money to have done more to determine Mrs F's financial circumstances.

As outlined above there aren't any specific checks a lender has to complete. One option is to get a better picture of the borrower's circumstances by looking at their bank statements. Mrs F has provided her bank statements for the three months prior to her credit card application. These show Mrs F's average monthly income was around £2,883, lower than the monthly income Virgin Money had used in their assessment (around £3,482).

Mrs F's bank statements show she was consistently using her overdraft facility, at times being close to the overdraft limit. In one month Mrs F used her overdraft the entire month. And in the month prior to her credit card application Mrs F was using close to her overdraft limit throughout the month until she received a substantial amount from a family member. And despite this she remained in her overdraft the entire month until her salary was paid in.

Her overdraft interest costs were around £50 a month.

Mrs F's credit commitments over the three months averaged around £1,658, more than the £736 used by Virgin Money in their assessment. I can see Mrs F in some months settled credit card balances, taking this into account her credit commitments would still have been around double the figure used by Virgin Money.

As noted above, I can also see Mrs F was regularly reliant on help from family members in managing her outgoings. Her bank statements show that for one of the three months, her outgoings was greater than her income. And that she was heavily reliant on her overdraft to meet her financial commitments. So I'm satisfied if Virgin Money had carried out further checks, they would have seen it was unlikely Mrs F would have been able to support additional borrowing and sustainably manage further repayments.

Putting things right

While I don't think Virgin Money should have lent to Mrs F. It wouldn't be fair if she didn't pay back the money she has borrowed. But I don't think it's fair for Virgin Money to add any interest or other charges on to Mrs F's credit card account.

My final decision

I uphold this complaint. And ask Clydesdale Bank Plc trading as Virgin Money to:

- 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 Mrs F along with 8% simple interest* per year calculated from the date of each overpayment to the date of settlement.
- Remove all adverse information regarding this account from Mrs F's credit file. Or,
- if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mrs F for the remaining amount. Once Mrs F has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

* HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. They must give Mrs F a certificate showing how much tax has been taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 16 June 2025.

Anne Scarr
Ombudsman