

The complaint

Miss K complains that Clydesdale Bank trading as Virgin Money lent irresponsibly when it approved her credit card application.

What happened

Miss K applied for a Virgin Money credit card in May 2022. In her application, Miss K said she was employed with an annual income of £20,000 that Virgin Money calculated left her with £1,460 a month after deductions. Virgin Money carried out a credit search and found no evidence of any missed payments, defaults, County Court Judgements or other adverse credit. The credit search showed Miss K owed £4,489, or 22.5% of her annual income, in other unsecured debt. Virgin Money applied estimates for Miss K's housing costs and general living expenses to its affordability assessment and says she had a disposable income of £576 a month. Virgin Money approved Miss K's application and issued a credit card with a £3,000 limit.

Last year, Miss K's credit card payments fell behind. Miss K went on to complain that Virgin Money lent irresponsibly and it issued a final response. Virgin Money said it had carried out the relevant lending checks before approving Miss K's application and didn't agree it lent irresponsibly.

An investigator at this service looked at Miss K's complaint and upheld it. They thought that Miss K's existing debts were high when compared against her income at application and thought that should've caused Virgin Money to carry out a more detailed review of her circumstances before deciding to proceed. The investigator looked at Miss K's bank statements for the three months before her application was made and thought they showed her outgoings were already higher than her income. The investigator thought that more detailed lending checks would most likely have led Virgin Money to decline Miss K's application and thought it lent irresponsibly. The investigator asked Virgin Money to refund all interest, fees and charges applied to Miss K's credit card from the date of approval.

Virgin Money asked to appeal and said it didn't agree that there were grounds for diverting from its standard application criteria when deciding whether to lend to Miss K. Virgin Money also queried some of the figures used in the investigators review of Miss K's income and expenditure. As Virgin Money didn't accept the investigator's view of Miss K's complaint her case 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, the rules say Virgin Money had to complete reasonable and proportionate checks to ensure Miss K 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.

I've set out the information Virgin Money obtained and considered when assessing Miss K's application above. The first thing I need to consider is whether the checks Virgin Money carried out were reasonable and proportionate to Miss K's application and circumstances. I can see the credit file information showed no evidence of missed payments or adverse credit. And I can see that Virgin Money found Miss K already owed 22.5% of her annual income, or £4,489, in other unsecured debt. I think the investigator makes a reasonable point when they say that the addition of the new credit card had the potential to significantly increase the amount she owed and her monthly repayments. If Miss K were to borrow the full credit limit of £3,000 it would've meant she owed £7,489, or 37.5% of her annual pre tax income. I agree with the investigator that the information obtained showed there was a risk that Miss K may become overburdened by a new credit card. I also think it's reasonable to note Miss K's net monthly income of £1,460 was reasonably modest which meant her ability to make substantial repayments or cover unexpected expenses was limited. On balance, I'm satisfied it would've been prudent for Virgin Money to have carried out more detailed lending checks before approving Miss K's application.

One option available to Virgin Money would've been to review Miss K's bank statements to get a clearer picture of her circumstances. That's the approach I've taken. In the three months before Miss K's application her average income was £1,201. I can see Miss K was making monthly payments of £300 to a third party that she's confirmed represented her rent and a contribution to household bills. I can also see that Miss K was using another credit card and making manual payments to it throughout the period in question. I found that Miss K's regular outgoings for items like her existing debts, contribution towards rent, overdraft fees and insurance came to an average of £1,184 a month. That doesn't take into account Miss K's other spending on items like food or fuel. I also note that Miss K was using her overdraft for gambling purposes in February and March 2022. Overall, I'm satisfied Miss K's bank statements show she was already at or over capacity in terms of her existing outgoings and unlikely to be able to sustainably afford a new credit card with a £3,000 limit.

As I'm satisfied Virgin Money should've carried out a more thorough lending assessment and that a review of Miss K's bank statements would've shown it she wasn't in a position to sustainably afford repayments to a new credit card I haven't been persuaded it lent responsibly when it approved her application. As a result, I'm upholding Miss K's complaint and directing Virgin Money to settle by refunding all interest, fees and charges applied from the date of approval.

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 Miss K in the circumstances of her 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 Miss K's complaint and direct Clydesdale Bank Plc trading as Virgin Money to settle as follows:

- 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 Miss K along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Virgin Money should also remove all adverse information regarding this account from Miss K's credit file.
- Or, if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Miss K for the remaining amount. Once Miss K 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. It must give Miss K a certificate showing how much tax has been taken off if she 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 Miss K to accept or reject my decision before 26 August 2025.

Marco Manente
Ombudsman