

The complaint

Mr A complains that a credit card account with Capital One (Europe) plc, and a credit limit increase, were unaffordable for him and that that it was irresponsible for it have lent to him. Mr A is being represented in his complaint by a legal adviser.

What happened

Mr A applied to Capital One for a credit card account in September 2023. His application was accepted and an account was opened for him with a credit limit of £500. Mr A's credit limit was increased to £1,250 in July 2024 and he complained to Capital One in August 2024 that the credit was unaffordable for him and that its lending had been irresponsible.

Capital One said that, as a result of the affordability assessments done when the account was opened and when it extended the credit limit, and its review of Mr A's complaint, it was confident that its decisions to open the account and extend the credit limit were both appropriate and affordable for Mr A. The complaint was then referred to this service.

The complaint was looked at by one of this service's investigators who, having considered everything, didn't think that Capital One had acted fairly. He was satisfied that the checks carried out at the time of application were proportionate to the amount being lent, but he didn't think that Capital One made a fair lending decision. He recommended that Capital One should rework the account, removing all interest, fees, charges and insurances (not already refunded) that had been applied and: if that results in a credit balance, it should be refunded to Mr A with interest and remove all adverse information regarding the account from Mr A's credit file; or if there's still an outstanding balance, it should arrange an affordable repayment plan with Mr A for the remaining amount and, once the balance has been cleared, any adverse information in relation to the account should be removed from Mr A's credit file. He said that if Capital One has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with it to ensure his recommendation was carried out promptly.

Mr A has accepted the investigator's recommendation but Capital One has asked for this complaint to be considered by an ombudsman. It says that its lending decision included Office for National Statistics' figures, which are outside of its control and are subject to change and which it reviews regularly to ensure that they remain appropriate for the current economy. It says that it acted in line with regulatory requirements to account for non-discretionary spend and it found that Mr A had positive disposable income.

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.

Capital One says that it was only after reviewing the information provided by Mr A, credit reference agencies and the Office for National Statistics, together with its own data, that it decided what level of credit would be affordable and that a credit card account for Mr A was opened in September 2023 with a credit limit of £500. It says that Mr A declared that he was employed with an annual income of £24,000, from which it calculated an after tax monthly income of £1,661.30.

Capital One was required to make reasonable and proportional checks to ensure that any credit being provided to Mr A was sustainably affordable for him at that time. I consider that the checks that Capital One made were reasonable and proportionate in Mr A's circumstances for a credit card account with a credit limit of £500. I'm not persuaded that it needed to obtain a more detailed understanding of Mr A's financial situation.

Capital One says that other debt commitments that were recorded on Mr A's credit file at that time included £13,969 of outstanding credit card debt and other borrowing and £10,417 in hire purchase agreements, which it calculated would require existing monthly repayments of £895.77. It says that Mr A had said on his application that his housing costs were £120 and the monthly payment for a credit card account with a £500 credit limit would be £30. It says that the disposable income threshold for Mr A was £535 and that he would have had a monthly disposable income of £615.53, so he passed its affordability assessment.

The investigator says that a review of Mr A's credit file shows that he had 14 active credit agreements at the time of application with a total outstanding credit balance of £24,386 and he calculated that Mr A's monthly credit commitment was about £987. Using that with the other information that Capital One had gathered, would have caused Mr A's monthly income to be below its disposable income threshold.

Capital One says that any disposable income over the disposable income threshold would be a pass of its affordability assessment. Mr A already had outstanding credit of £24,386 and I consider that its affordability assessment, based on the reasonable and proportionate checks that it had made, should have shown that another credit card account with a credit limit of £500 was unlikely to be sustainably affordable for Mr A and that it would be irresponsible for it to have provided that credit to him.

I don't consider that Capital One should have provided a credit card account to Mr A so it follows that any credit limit increase on the account that it opened for him shouldn't have been made to him. I consider that it's not fair or reasonable for Capital One to have charged Mr A any interest or fees on his credit card account, but I consider that it's fair and reasonable that he should pay back to Capital One the amount of the credit that he has used. I find that it would be fair and reasonable in these circumstances for Capital One to take the actions described below to put things right.

I've also considered whether Capital One acted unfairly or unreasonably in some other way, including whether its relationship with Mr A might have been unfair under section 140A of the Consumer Credit Act 1974. As I'm upholding Mr A's complaint for the reasons given above, I don't consider that I need to make a finding on that. I consider that the actions that I've described below result in fair compensation for Mr A in the circumstances of this complaint and I'm not persuaded that it would be fair or reasonable for me to require Capital One to take any actions, other than as described below.

Putting things right

I find that Capital One should rework Mr A's credit card account to remove all interest, fees and other charges that it has applied to the account. If the reworking results in a credit balance, it should refund the credit balance to Mr A and should pay interest on any credit balances that there would have been on the account at an annual rate of 8% simple. Capital One should also ensure that any adverse information about the credit card account that it's reported to the credit reference agencies is removed from Mr A's credit file.

If the reworking results in an outstanding balance owed by Mr A, it should agree an affordable repayment arrangement with Mr A for the outstanding amount and, when he's cleared that balance, it should also ensure that any adverse information about the credit card account that it's reported to the credit reference agencies is removed from Mr A's credit file.

If Capital One has sold Mr A's debt to a third party, it should arrange to either buy back the debt from the third party or liaise with it to ensure that the actions described above are carried out promptly. HM Revenue & Customs requires Capital One to deduct tax from any interest to be paid to Mr A. Capital One must give Mr A a certificate showing how much tax it's deducted if he asks it for one.

My final decision

My decision is that I uphold Mr A's complaint and order Capital One (Europe) plc to take the actions described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 10 December 2025.

Jarrold Hastings
Ombudsman