DRN-5972559

The complaint

Mrs P complains that Vanquis Bank Limited (Vanquis) acted irresponsibly by agreeing to a revolving credit facility and subsequent credit limit increase.

In bringing her complaint Mrs P is represented by a third party. For ease of reading I will only refer to Mrs P in my decision.

What happened

Around January 2021 Mrs P applied for a revolving credit facility (credit card) with Vanquis. Her application was successful and Vanquis issued her with a credit card that had a credit limit of £1,000. Around April 2021 Vanquis increased Mrs P's credit limit by a further £500 to £1,500. Mrs P said she struggled to sustain the repayments and by agreeing to the credit facility Vanquis had caused her to spiral into debt. She complained to Vanquis.

Vanquis said their checks were reasonable and proportionate They said at the time of the application and credit limit increase Mrs P hadn't shown any signs of financial vulnerability. And she'd sufficient disposable income to sustain the repayments. Vanquis said based on these checks their lending decision(s) were fair.

Mrs P wasn't happy with Vanquis' reply and referred her complaint to us.

Our investigator said the checks Vanquis did were reasonable and proportionate for the type and amount being borrowed. But based on these checks didn't agree that Vanquis had made fair lending decision(s), as Mrs P didn't have sufficient disposable income to sustain the repayments. They asked Vanquis to put things right.

Vanquis disagreed with our investigator 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.

Having done so I'm upholding this complaint. I'll explain why.

I've considered the relevant rules and guidance on responsible lending set by the regulator, laid out in the consumer credit handbook (CONC). In summary, these say that before Vanquis offered the facility, they needed to complete reasonable and proportionate checks to be satisfied Mrs P would be able to repay the debt in a sustainable way. There are two overarching questions I need to consider in deciding what's fair and reasonable in all the circumstances of the complaint. These are:

1. Did Vanquis complete reasonable and proportionate checks to satisfy themselves that Mrs P would be able to repay the credit in a sustainable way?

   a. if so, did Vanquis make a fair lending decision?

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

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

There isn't a set list of checks a lender must do. But, in deciding what is proportionate Vanquis needed to consider things such as (but not limited to): the amount of credit, the size of any regular payments (taking into consideration the rules and guidance in CONC relating to assumptions concerning revolving credit), the cost of credit and the consumer's circumstances.

Also, we consider that any lending should be borrower focused meaning Vanquis need to think about whether repaying the lending sustainably would cause difficulties or adverse consequences for Mrs P. In other words, it wasn't enough for them to think only about the likelihood that they would get their money back without considering the impact of repayment on Mrs P herself.

What's important to note is that Mrs P was provided with a revolving credit facility rather than a loan. As it was revolving credit there's no set amount that needed to be repaid each month, but CONC requires a firm to assume when carrying out their assessment that the entire credit limit is drawn down at the earliest opportunity and repaid in equal instalments over a reasonable period. Vanquis was approving a credit limit of £1,000. So, I think they could have reasonably assumed Mrs P would need to be able to pay around £50 each month to clear the full amount owed within a reasonable period.

CONC says a lender needs to take reasonable steps to estimate a consumer's income and non-discretionary spending. It says in general a lender shouldn't solely rely on a consumer's declared income but seek verification through an independent source such as a credit reference agency (CRA) or third party. It also allows for the use of statistical data in determining a consumer's non-discretionary spending.

I've looked at what checks Vanquis said they did when initially approving Mrs P's application. They said they looked at information Mrs P provided in her application and cross referenced this with CRA data and considered statistical data to assess Mrs P's non-discretionary outgoings. So, I'm satisfied the checks for the type and amount of credit being provided gave Vanquis a good understanding of Mrs P's income and non-discretionary outgoings including her credit commitments. And I don't think Vanquis needed to ask Mrs P to provide further evidence in support of her income and expenditure.

I've next considered whether the decision to lend to Mrs P based on these checks was fair and I don't think it was. I say this as Mrs P said she worked part time with an annual salary of £14,500 and she'd two dependents. Vanquis' assessment showed this as a monthly income of £1,208, they assessed Mrs P's housing costs to be £234 as declared by Mrs P rather than the lower amount suggested by the statistical data. They assessed Mrs P's living costs to be £510 and her credit commitments to be £295. I can see they used a higher figure £62 for the new lending and allowed a buffer of £50. In their assessment Vanquis considered Mrs P required a minimum income of £1,151. As she'd an income of £1,208 Vanquis decided the lending was sustainable as Mrs P would have a disposable income of £58.

But given Mrs P's circumstances being a homeowner with two dependents we wouldn't consider this amount to be sufficient to sustain the repayments and to meet any discretionary and unexpected costs.

I've thought carefully about Vanquis' comments, especially those made in response to the investigator's assessment. Vanquis said they specialise in providing credit for consumers who mightn't be able to obtain credit from other mainstream lenders because of their credit history. They said they consider a relatively low initial credit limit to allow a consumer to improve their credit history. And that the level of disposable income is reflected in the credit limits offered. They also said while Mrs P had a significant amount of debt, her debt-to-income ratio was 58%, which they'd consider to be reasonable. And Mrs P's accounts were all up to date, with no adverse data showing for at least 12 months.

In fairness to Vanquis, they've allowed a £50 buffer and used a higher repayment amount. By removing the buffer and reducing the repayment would mean Mrs P should have around £119 in disposable income. As any lending should be borrower focussed, taking account of Mrs P's existing debt and Mrs P's circumstances, being a homeowner with two dependents, we'd consider this still to be insufficient as it would be more likely than not that any repayments would become unsustainable. Vanquis has commented on how Mrs P managed her account with them, but it wouldn't be fair for me to reassess my decision based, in hindsight, on what happened after the lending decision was made.

So, while I'm satisfied the checks Vanquis did were reasonable and proportionate, I don't think they made a fair lending decision, based on these checks I don't think Mrs P had sufficient disposable income to sustain her repayments. And as I don't think Vanquis should have agreed to the revolving credit facility by extension they shouldn't have applied a further credit limit increase.

I've also considered whether Vanquis acted unfairly or unreasonably in some other way given what Mrs P has complained about, including whether their relationship with her might have been viewed as unfair by a court under Section 140A Consumer Credit Act 1974. But I'm satisfied the redress I've directed below results in fair compensation for Mrs P 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.

Putting things right

We'd generally look to put a consumer back into the position they would have been before any error. But for cases of unaffordability this isn't straight forward as Mrs P has had use of the credit that was lent to her by Vanquis. So, I think its fair that she should pay this back. But I don't think its fair for Vanquis to apply any interest and charges.

My final decision

I'm upholding Mrs P's complaint. And ask Vanquis Bank Limited to:

- Rework the credit card account to remove all interest, fees, charges and insurances (not already refunded).
- If the reworking results in a credit balance, this should be paid to Mrs P with the addition of simple interest at 8%* per year from the date of each overpayment to the date of settlement.
- If after all adjustments have been made Mrs P no longer owes any money, then all adverse information regarding the unfair lending should be removed from her credit file. Or,
- if an outstanding balance remains, they should look to arrange an affordable payment plan with Mrs P for the outstanding amount. Once she's cleared the balance, any adverse information about the unfair lending should be removed from her credit file.

*His Majesty's Revenue & Customs requires Vanquis Bank Limited to deduct tax from any award of interest. It must give Mrs P a certificate showing how much tax has been taken off if she asks for one. If they intend to apply the refund to reduce an outstanding balance, they must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs P to accept or reject my decision before 24 December 2025.

Anne Scarr
Ombudsman