

## complaint

Mr H says Vanquis Bank Limited should not have increased his credit card limit from £500 to £1,500.

## background

Mr H says what Vanquis did was irresponsible. He says when it automatically raised his credit limit he was reliant on payday lending, and this added to his money troubles.

Mr H is also unhappy with how Vanquis treated him since then. He says it sold his debt while he was discussing a repayment plan for the arrears. And it ignored him

Vanquis says it carried out proper checks before it offered to increase the credit limit. And based on these it didn't see a good reason not to offer Mr H an increase. It says Mr H had a chance to refuse the increase. It also denies ignoring him.

Our investigator did not uphold this complaint. In summary, she thought Vanquis had acted reasonably in light of what it knew about Mr H's account, and the credit search it did.

Mr H disagrees. In summary, he says Vanquis didn't properly take into account what it knew about him before it put up his borrowing. He says that leading up to the increase he had several missed payments, was reliant on payday loans, and was taking out cash advances on the card. He says it was irresponsible to triple his credit limit.

I issued my provisional findings on this case on 10 July 2018 which said:

*I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.*

*I've considered the relevant guidance from the time Vanquis made its lending decision in July 2013. Guidance from the Office of Fair Trading says that in making a decision to increase a credit facility a lender needs to make proportionate checks to assess whether its customer will be able to repay this in a sustainable manner, without getting into further money trouble. The guidance includes the following:*

- creditors should take reasonable steps to assess a borrower's likely ability to be able to meet repayments under the credit agreement in a sustainable manner*
- the borrower should be able to repay the credit on a timeline at least akin to that used for other forms of unsecured lending such as fixed sum personal loans, made for an amount equivalent to the credit limit*
- the fact that a borrower may be able to 'service a debt' over many years simply by making minimum repayments does not, in our view, equate to being able to pay off a debt in a reasonable period of time*

*The UK Cards Association guidelines for credit card limit increases are also relevant here as a good practice indicator of what a lender should consider before increasing a credit limit.*

*Before offering to increase Mr H's credit limit Vanquis chose to look at the history of his account. And it also carried out a credit search. On the face of it, that isn't unreasonable. But looking at the overall situation here, I don't think it got sufficient information to make an assessment of creditworthiness. And had it looked at things more closely I think it would've realised that making a decision to increase Mr H's credit limit like this was not the right thing to do.*

*My starting point here is the amount of the increase. Vanquis offered Mr H three times his original facility. When making an increase of this kind, I think it is reasonable to expect that the level of checking and scrutiny would be greater than if it had offered a few hundred pounds more. While there isn't a requirement for lenders to carry out an income and expenditure check in every case, on the face of it this would be a sensible way of checking if this extra lending could be paid off in a sustainable way. However, Vanquis didn't do this and chose to rely on other information. In particular, the way Mr H had been managing his account and information it obtained from a credit reference agency.*

*With that in mind, I note that in the 12 months leading up to the offer to increase his limit Mr H had:*

- missed 5 of his 12 scheduled monthly payments (incurring late fees)*
- taken a cash advance from the credit card*
- gone over his agreed credit limit (he was charged for this)*
- mainly paid the minimum payment each month of around £20 (whether that be on time or to make up for a previously missed payment)*

*The UK Cards Association best practice guidance on credit card limit increases points to these things as being possible indicators that a customer is showing signs of financial difficulty. Taken as a whole, rather than reassure it that Mr H was in a good position to have his credit limit tripled I believe the factors above present reasonable cause for Vanquis to have got further information about his finances.*

*Vanquis says its checks showed that in the 3 months before the lending decision Mr H was paying an equivalent to 320% of the payments required. But a closer inspection shows this seems largely due to him making one £150 lump sum payment towards his balance in late June to get the card back within its original credit limit. Based on his repayment activity over the previous year I would say this level of payment was unusual and not representative of how Mr H was managing the account. So I don't think it was reasonable for Vanquis to have relied on this in the face of the other information it had.*

*Vanquis also said the late payments were made up shortly after the due date and Mr H didn't mention financial difficulties. But late payments are still a risk indicator. And in conjunction with the frequency of late payments and other factors I've mentioned I believe Vanquis had cause for questioning things in more detail before offering such a significant increase in lending.*

*I note that Vanquis carried out a credit search. But this didn't return any data on Mr H's short term lending. In this case, and in light of the other factors I've already identified I don't think the information Vanquis got on this search is enough to persuade me its checks went far enough.*

*Overall, I think Vanquis should've got more information about Mr H's financial position before increasing his credit limit. And had it done so I think it would've found Mr H didn't have the funds to repay the increased credit in a sustainable manner. It would likely have discovered he was dependant on payday lending leading up to the increase and unable to meet his normal household expenses without resorting to high cost short term credit. For example, from the financial information Mr H has provided I can see that in the 3 months leading up to the decision to increase his credit limit he took out 6 new payday loans (in excess of £3,000 in borrowing), and paid back 19 loans (almost £5,000 repaid in total). I can also see his bank account was regularly and notably overdrawn during this period.*

*It is apparent when Vanquis put up his credit limit Mr H was using short term credit to get by and make the minimum payments on his card. And he couldn't sustainably meet the £65 monthly minimum payments on the full balance of £1,500 or repay the total debt in a reasonable period. To underline this, I can see when Mr H got the increase he immediately maxed out the balance on his card. And he couldn't bring this down over the following months (sometimes unable to make even the minimum payment). He kept getting more late payment charges and over limit fees until the account was eventually passed to collections around July 2014.*

*Vanquis has said Mr H didn't opt out of the offer to increase his limit, but Mr H says he was in such dire situation he was taking any credit he could get. I don't think he has acted unreasonably and was clearly in a vulnerable situation. The fact Mr H could've opted out does not mean that Vanquis wasn't responsible for carrying out proportionate checks.*

*All things considered I think Vanquis shouldn't have put the credit limit up in this particular case. Had they made proportionate checks, they would likely have discovered it wasn't the right thing to do.*

*Mr H has complained about how Vanquis treated him after it increased the balance. Based on what I have from the contact notes and emails I can't be sure that it ignored him. It looks like there was likely a problem with Vanquis getting his emails rather than it making a decision to not communicate with him.*

*Mr H is unhappy the conversations about repaying the arrears broke down and led to the account being passed to collections. Vanquis says it offered Mr H a payment plan in May 2014 before passing the matter to collections when he didn't make a payment. But I can't see where it recorded Mr H's income and expenditure to determine what payments were actually sustainable for him. I think it would've been better if it had explored this at the time.*

*Although Mr H had financial trouble before, by putting up his limit Vanquis made things more difficult to get back on track. Especially when you consider Mr H's minimum payment had increased so much.*

*Overall, for the reasons outlined I don't think it is fair for Vanquis to charge interest or fees on any balance above £500 from the point it put Mr H's credit limit up to £1,500. I have not recommended a refund of the extra credit Mr H has spent as a result of the limit increase - as he has used this I don't think it would be fair. But I do think Vanquis needs to offer a sustainable way for Mr H to repay any remaining arrears. I have detailed below what I think needs to happen next to sort all this out. Particularly, as the debt has now been sold to a third party.*

*I also think that it would be fair for Vanquis to amend Mr H's credit file to remove any adverse information about the account which it added to his credit file after it increased his credit limit.*

**my provisional decision**

*I uphold this complaint. And direct Vanquis Bank Limited to:*

- *buy back the debt from the third party it sold it to – writing off charges (if any) added to the balance since it was sold;*
- *re-work the account to determine what the balance of the card would be now if it had not charged Mr H interest or late charges/fees on any balance above £500 after it increased his credit limit to £1,500;*
- *work out an interest free repayment plan for the outstanding balance with Mr H;*
- *in the event the re-working results in a positive credit balance any money due back to Mr H should have simple yearly interest added to it at 8% from the date Mr H's limit was increased to the date of settlement; and*
- *Vanquis should remove any adverse information about this account from Mr H's credit file from the date his credit limit was increased to the date the account was closed.*

I asked the parties for their comments on my provisional decision.

In summary, Mr H says:

- he is happy with the provisional decisions and accepts it all; and
- he had been making payments to the third party who bought the debt for about 12 months up to the time he submitted this complaint. And wants to make sure Vanquis takes this into account when it re-works the balance.

In summary, Vanquis says:

- Mr H only missed one payment in the 7 months leading up to the increase and kept these up for a few months after;
- Mr H only went over his limit once in the 16 months leading up to the increase;
- Mr H only took one cash advance in the 18 months leading up to the increase;
- Mr H only had to make a payment of £40.01 to his June statement but he ended up paying a total of £173.25;
- the only risk indicator it has found is that Mr H was paying the minimum payment over an extended period – but it believes this in isolation might not indicate financial difficulties; and
- it feels the decision to increase Mr H's credit limit was correct and according to industry guidelines.

### **my findings**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

On the one hand Vanquis appears to be saying it is important to consider the account activity a few months before the lending decision was made and give less weight to what happened before. On the other hand it appears to be saying it is important to give less weight to events closer to the time of the lending decision and consider things over a longer period. I don't find this to be consistent.

I don't think it was unreasonable for me to draw attention to the account history over the 12 months prior to the lending decision. Nevertheless, whether you go back a bit further or look at a shorter timeframe I think the picture is broadly the same - Mr H wasn't managing the account particularly well. Vanquis says there was only one risk indicator but I don't agree. I think there were several - including regular missed payments, over-limits, and consistently paying just the minimum amount. And although the cash advances were not frequent – taken along with everything else I think it is something that would've prompted concern. This is despite the larger payment made to the June statement (which as I have already said) appeared to be out of step with the way the account was generally being managed.

As stated in my provisional findings – it is important to note that Vanquis needed to carry out proportionate checks to justify a tripling of the original lending decision. This is a notable increase in the credit facility. And in that context, rather than give Vanquis confidence that Mr H could financially cope with such an increase the account history should reasonably have prompted further checks.

Vanquis says the UK Cards Association guidance states it must consider information from credit reference agencies plus one other thing. But that isn't exactly what it says. It says at 'least' one other thing. As I have already said – in this particular case, in light of what Vanquis knew I don't think the additional credit search was enough. It wasn't a very detailed check and didn't return some important data. In this case, I think Vanquis should've looked at more information, for example Mr H's income and financial commitments at the time. And had it done so it would likely have seen the decision to lend wasn't right.

Vanquis has referred to Mr H making some payments to the account after the increase. But this doesn't satisfy me that the lending decision was the right one. And it is apparent that Mr H was making those payments from other forms of borrowing.

All things considered, Vanquis hasn't persuaded me to depart from the findings of my provisional decision. So I uphold this complaint for the same reasons (as detailed above).

In his response to my provisional decision Mr H has pointed out that he made some payments to the debt after it was sold to the third party. So in re-working the account to determine what Mr H owes Vanquis should make sure these payments are taken into account.

### **my final decision**

I uphold this complaint. And direct Vanquis Bank Limited to:

- buy back the debt from the third party it sold it to – writing off charges (if any) added to the balance since it was sold;
- re-work the account to determine what the balance of the card would be now if it had not charged Mr H interest or late charges / fees on any balance above £500 after it increased his credit limit to £1,500 (and taking into account the payments Mr H made since the debt was sold);
- work out with Mr H an interest free repayment plan for the outstanding balance;
- in the event the re-working results in a positive credit balance any money due back to Mr H should have simple yearly interest added to it at 8% from the date Mr H's limit was increased to the date of settlement; and
- Vanquis should remove any adverse information about this account from Mr H's credit file from the date his credit limit was increased to the date the account was closed.

If Vanquis Bank Limited considers that it is legally required to deduct income tax from any interest award, it must send a tax deduction certificate with the payment. Mr H can then reclaim this from HM Revenue and Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 20 September 2018.

Mark Lancod  
**ombudsman**