

complaint

Mrs M complains that Vanquis Bank Limited didn't carry out proper affordability checks before it approved her application for a credit card. She's been assisted in bringing her complaint by her father, Mr L.

background

In or about November 2014 Mrs M applied online for a credit card with Vanquis. She had only recently been discharged from bankruptcy, although Vanquis wasn't involved in that and wasn't listed as a creditor. Following a brief telephone call with Vanquis, during which Mrs M's own income, household income and outgoings were discussed, she was given a credit card with a credit limit of £500. That credit limit was increased to £1,000 in April 2015, £2,000 in September 2015 and £3,000 in February 2016.

Until 2016 the credit card account was operated within its spending limits, and payments were made on time, usually for significantly more than the minimum balance. But Mrs M then began to find things difficult, and from September 2016 Vanquis froze the account, suspending interest and charges.

Mrs M has provided Vanquis and this service with evidence that she suffers from mental health conditions which can lead to excessive spending and affect her ability to make rational decisions.

Mrs M and Mr L say that Vanquis shouldn't have agreed to let her have a credit card, given in particular that she had only recently been discharged from bankruptcy. Vanquis didn't agree. It said it had properly assessed her ability to repay debt and that it operates a "low and grow" model – providing customers with a low credit limit and only increasing it when they have shown they can manage the account well. That, Vanquis says, is what happened with Mrs M. Vanquis also says it wasn't told about Mrs M's mental health issues until she started having difficulty making repayments. Mrs M referred the matter to this service.

One of our adjudicators considered the complaint, but took the view that Vanquis had treated Mrs M fairly. He didn't believe it would be fair to require Vanquis to write off the debt, as Mrs M and Mr L had asked. They didn't agree with the adjudicator's conclusions, and so the case has been passed to me to review – as the final stage in our consideration of it.

my findings

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, however, I've reached the same overall conclusions as the adjudicator did – in the sense that I shan't be requiring Vanquis to write off the debt.

Lenders, including credit card providers such as Vanquis, are under a duty, before agreeing to lending, to assess the ability of the borrower to repay any money they borrow. That applied here not only to the original decision to let Mrs M have a credit card, but also to Vanquis's subsequent decisions to increase her credit limit. In this respect, I note that Vanquis increased Mrs M's credit limit from £500 to £3,000 (a six-fold increase) in just 15 months; it doesn't appear though that her financial circumstances, or those of the household, had changed in that time. It appears that the final increase – from £2,000 to £3,000 in February 2016 – triggered the difficulties that Mrs M now faces.

I understand Vanquis's argument that its business model allows it to give low credit limits and gradually increase them if a customer is managing the account well. And it does appear that Mrs M did manage her account well for a year or so. But the effect of that here seems to have been that Mrs M's credit limit was increased up to the point where she could no longer manage things, not to the point where she could. I think it's notable that, from early 2016, she began to use the credit card to make regular cash withdrawals – often a sign of financial difficulty.

So, whilst I'm satisfied that a credit limit of £500 was affordable for Mrs M, and that she appears to have managed the first two increases, borrowing of £3,000 was much more difficult.

I turn then to what Mrs M and Mr L have said about her mental health. They have, helpfully, provided medical evidence indicating that she might have difficulty making rational decisions and might over-spend. But, as the adjudicator noted, there's nothing to show that Vanquis knew about any of this until 2016. It's not of course for me to judge Mrs M's spending habits, but the way she used her credit card doesn't obviously suggest anything other than normal spending – on food, clothes, fuel and household items. So I don't believe I can fairly criticise Vanquis for not spotting any problem.

I should make clear of course that a mental health condition is not, of itself, a reason to refuse to provide credit. Indeed, had Vanquis known about Mrs M's condition in 2014 and refused her application on that basis, it might have been open to accusations of unfair discrimination.

I need to consider therefore what, if anything, Vanquis should do now. As I've indicated, I believe Vanquis was entitled to take the view in November 2014 that Mrs M could afford a £500 credit limit, although I have some reservations in particular about the credit limit increase to £3,000. That said, I note that Vanquis has taken steps to help Mrs M, by suspending interest and charges and freezing the account. It's done that because Mrs M had a repayment option plan in place (she paid a monthly fee and in return Vanquis agreed it would freeze interest and charges in circumstances such as these). Vanquis should in any event treat cases of financial difficulty in a positive and sympathetic manner, so this is the type of action I would expect it to take, whether or not Mrs M had taken out that plan. I stress though that I haven't considered the repayment option plan here.

Nevertheless, Mrs M has of course had the benefit of the money she's spent on the credit card. To write off the balance, as she and Mr L have suggested should happen, would have the effect of making Vanquis pay for the goods and services she's used. I don't believe that would be fair in the circumstances of this case.

Overall, I share the adjudicator's view that the action Vanquis has taken by suspending interest and charges is sufficient at present. I would however remind Vanquis of its ongoing duty to act in a positive and sympathetic manner towards Mrs M and would encourage both sides here to work towards a mutually satisfactory payment arrangement. If that's not possible, Mrs M may be able to bring a new complaint.

my final decision

My final decision is that I don't require Vanquis Bank Limited to do any more to resolve Mrs M's complaint that it didn't properly assess affordability of its lending to her. Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 28 July 2019.

Michael Ingram
ombudsman