DRN-4260429

The complaint

Mr S complains that Bank of Scotland plc trading as Halifax irresponsibly gave him a credit card he couldn't afford.

What happened

In December 2019, Mr S applied for a Halifax credit card. He was given a credit limit of £4,000. The limit was never increased. Mr S complained to Halifax in early 2023 to say that the credit card should never have been approved. He said that at the time of the application he was overdrawn on his current account (held with the Bank of Scotland group) and this should have shown Halifax he couldn't afford the credit.

Halifax didn't think it had acted unfairly in lending to Mr S. It said that Mr S declared an annual income of £69,000 on his application (or around £4,000 per month) and monthly expenditure of £1,150. Halifax says it also estimated his essential living costs as £1,040 per month (using statistical data). It said this left him with a monthly disposable income of around £1,800. It said it therefore considered the credit limit to be affordable.

Our adjudicator didn't recommend the complaint be upheld. He was satisfied that Halifax had completed reasonable and proportionate affordability checks and there wasn't anything in those checks that suggested it made an unfair lending decision.

Mr S didn't agree, so the complaint has been passed to me for a final 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.

Prior to granting credit, Halifax needed to ensure Mr S could afford the borrowing. There isn't a set list of checks it needed to carry out, but the checks it did had to be proportionate to the specific circumstances of the lending decision. What is proportionate will therefore vary in each case and deciding what checks were proportionate, Halifax needed to take into account things such as (but not limited to): the amount borrowed, the type of credit, the size of any regular repayments (for credit cards this includes the ability to repay the entire credit limit in a reasonable period of time), the cost of the credit and the consumer's circumstances.

As I've set out above, as part of the application Mr S declared a monthly income of around £4,000 and monthly expenditure of around £1,150. Halifax calculated a monthly disposable income of around £1,800. Mr S says that Halifax should have taken into consideration the activity on his current account – and in particular his overdraft borrowing – as that account was held within the same banking group. I agree with Mr S that Halifax were required to take into account what it knew about its customer already, which would have included other existing and historic lending. And I can see that Halifax could see that he held a current account within the same banking group.

It isn't clear to what extent Halifax took this into consideration at the time of the application (although it says it used this account data to inform its internal credit scoring). However, as the information was available to it, I've assumed it formed part of its assessment of creditworthiness and if it didn't, it should have. So, I consider the account activity relevant to my decision about whether Halifax acted fairly.

Taking into account what Mr S declared on the application, the credit check Halifax completed, the statistical data it used to estimate living costs and Mr S' account activity, I think Halifax gathered (or had available) a reasonable and proportionate amount of information to adequately assess whether the credit might be affordable.

I've therefore considered whether Halifax made a fair lending decision based on what it could see (or ought to have seen).

I can see that what Mr S declared about his income was broadly accurate and his bank statements demonstrate this. However, he had underdeclared his expenditure. He had additional regular credit commitments which totalled around £450 per month that he hadn't declared on the application. However, it appears that even with these additional payments (and taking into account his committed essential spending) he still had sufficient disposable income to sustainably afford a credit limit of £4,000.

Mr S says that his overdraft usage ought to have concerned Halifax and prompted it not to lend to him. While I agree that in some cases prolonged and heavy reliance of an overdraft – particularly where there hasn't been any positive balance for a significant period of time – ought to raise some concern regarding affordability of more credit. However, Mr S' statements don't show this.

When considering Mr S' overdraft usage, I've not seen enough to suggest his utilisation was such that Halifax ought not to have proceeded with the application. Mr S had a regular and significantly above average income. His credit record appeared to show no signs of financial difficulty or over-reliance on credit. Further, while Mr S' overdraft usage increased in the two to three months prior to his credit card application, his monthly income (and what appeared to be his disposable income) was enough to make significant repayments towards that borrowing and ensure he was clear of his overdraft relatively quickly. He had previously maintained a positive balance regularly on the account and there didn't appear to be any significant changes in his essential committed expenditure. So, I don't think Halifax acted unreasonably or unfairly in concluding that the new credit appeared affordable.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 15 September 2023.

Tero Hiltunen
Ombudsman