DRN-4381437

Financial Ombudsman Service

The complaint

Miss A says Clydesdale Bank Plc, trading as Virgin Money, irresponsibly lent to her.

What happened

Miss A took out a credit card from Virgin Money in May 2021. She was given a credit limit of £3,700. This was increased to £7,400 in January 2022.

Miss A says she has struggled to make her repayments, having to borrow from family and friends. This has caused her extreme stress and anxiety.

Virgin Money says it completed proportionate checks and there were no signs of financial vulnerability.

Our investigator upheld Miss A's complaint. He said the information Virgin Money gathered showed signs that Miss A would not be able to repay the credit sustainably. He confirmed that in relation to the separate complaint point about her DSAR (Data Subject Access Request) Miss A had agreed that she would follow the steps in Virgin Money's letter.

Virgin Money disagreed with the assessment and asked for an ombudsman's review. It said Miss A had more disposable income than our analysis showed as she only paid £130 of the mortgage, and one missed payment would not be a reason to decline an application.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Miss A's complaint.

Virgin Money needed to take reasonable steps to make sure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss A could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Miss A's income and expenditure.

Certain factors might point to the fact that Virgin Money should fairly and reasonably have done more to establish that any lending was sustainable for Miss A. These factors might include Miss A's income, how much the repayments were, the frequency of the borrowing and how long Miss A had been indebted.

This means in this case I need decide if Virgin Money carried out proportionate checks; if so, did it make fair lending decisions; and if not what would better checks most likely have shown. I will also consider if Virgin Money acted unfairly towards Miss A in some other way.

I can see Virgin Money asked for some information from Miss A when she applied. It asked for her employment details and for her gross annual income. It verified this with a credit reference agency by checking her current account turnover. It carried out a credit check to understand her credit history and existing credit commitments. It asked about her household income and her residential status. From these checks it concluded Miss A would be able to afford the card.

I think these checks were proportionate, and I think Virgin Money's point is reasonable that it did not need to take into account the whole mortgage payment as this was shared – Miss A had confirmed her contribution was £130. And this means she had more than £60 disposable monthly income. However, even accepting this, I don't think Virgin Money made a fair lending decision based on the information it gathered. I'll explain why.

Miss A's declared her gross annual income was £27,125. The lender could see her existing credit commitments were £285 each month and this meant by giving a card with a £3,700 limit, and assuming a sustainable monthly repayment, it was increasing the amount Miss A would need to spend on unsecured credit to around a third of her take home pay. At this level I think Virgin Money ought to have realised there was a high risk she would not be able to sustainably repay the credit – so without borrowing to repay, or suffering other financial harm. And it needed to consider this – not just the pounds and pence affordability.

It follows I find Virgin Money was wrong to give the credit card to Miss A. And logically, this means it also ought not to have increased her limit in January 2022.

I have not seen that Virgin Money acted unfairly toward Miss A in some other way.

Putting things right

As I don't think Virgin Money ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I do think Miss A should pay back the capital she has borrowed as she has had the benefit of that money.

Therefore, Virgin Money should:

- Rework the account removing all interest, fees, charges and insurances (which have not already been refunded) that have been applied.

- If this results in Miss A having made overpayments these should be refunded to Miss A along with 8% simple interest (calculated from the date of overpayment to the date of settlement)*.

- If this will result in an outstanding balance, Virgin Money should agree an affordable repayment plan with Miss A.

- Once Miss A has cleared any outstanding capital balance, any adverse information in relation to the account should be removed from her credit file.

*If Virgin Money deducts tax from the interest element of this award, it should provide Miss A with the appropriate tax certificate so she can submit a claim to HMRC if applicable.

My final decision

I am upholding Miss A's complaint. Clydesdale Bank Plc, trading as Virgin Money, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 9 November 2023.

Rebecca Connelley
Ombudsman