

The complaint

Mr E complains that Clydesdale Bank trading as Virgin Money lent irresponsibly when it approved his credit card application.

What happened

In December 2021 Mr E applied for a credit card with Virgin Money. In his application, Mr E said he had an income of £21,291 and that there was a household income of £48,291. Mr E's application didn't declare any mortgage or rent costs but when Virgin Money carried out a credit search it found mortgage payments of £1,093 a month. Virgin Money says the credit search showed around £10,700 of unsecured debts with a monthly repayment figure of £416. Virgin Money applied its lending criteria to the application and approved a credit card with a limit of £5,300.

Earlier this year, Mr E complained that Virgin Money had lent irresponsibly when it approved his credit card application. Virgin Money issued a final response but didn't agree it had lent irresponsibly and didn't uphold Mr E's complaint.

An investigator at this service looked at Mr E's complaint and upheld it. They thought Virgin Money should've carried out more comprehensive checks when looking at Mr E's application. The investigator reached the view that if Virgin Money had done more before approving the application it would've most likely declined to proceed and asked it to refund all interest, fees and charges applied to the balance. Virgin Money asked to appeal, so Mr E's complaint has been passed to me to make a 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.

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 I have considered Mr E's complaint.

There isn't a specific set of checks that a lender is required to carry out, but the lender must undertake a reasonable assessment of creditworthiness and affordability. Affordability checks need to be proportionate taking into consideration factors such as – but not limited to – the size of the debt, the repayments, what the lender knew about the consumer, and the things the consumer told it about their circumstances.

I've looked at the information Virgin Money obtained during the application process. I can see that Virgin Money took details of Mr E's income as well as the total household income which came to £48,291. I've looked at Virgin Money's application data and it shows the credit card limit of £5,300 was approved on the basis of the household income rather than Mr E's sole income. I've taken the relevant regulations into account and I think it's fair to note they say lenders to use income from another person, insofar as it's reasonable to expect such income to be available to the borrower to make repayments under the credit

agreement. Whilst I understand there are provisions that mean Virgin Money can use household income, where the borrowing is dependent on that additional income, I'd expect it to get a clear picture of how sustainable it was for the lifetime of the credit card. I'm not persuaded Virgin Money did that in this case.

In my view, the information Virgin Money obtained during the application process ought to have caused it to carry out better checks before deciding whether to proceed. I think it's fair to note that Virgin Money found Mr E owed around £10,900 in other unsecured debt, equivalent to around half his declared personal income. I've looked at Mr E's full credit file and I can see evidence that he opened new loans in May 2021 and July 2021, a mail order account in September 2021 and obtained a second mortgage in January 2021. In my view, the level of existing debt and amount of new accounts Mr E had opened in the year before he applied to Virgin Money should've caused it to go further before approving his credit card application. I agree with the investigator that Virgin Money should've carried out more comprehensive checks before approving Mr E's application.

I also think it's fair to say that the credit limit Virgin Money gave was reasonably high at £5,300, around half Mr E's existing outstanding credit. An increase of that nature, when taken with the above, should've led to further checks being completed.

As noted above, there's no specific checks a lender has to complete. One option is to get a better picture of the borrower's circumstances by looking at their bank statements. Mr E's supplied his bank statements for the period immediately before he applied for the credit card with Virgin Money. Mr E's bank statements show his income was actually higher than declared in the application. But Mr E's bank statements also show a higher level of outgoings required to service debts or around £750 a month (as opposed to the figure of £416 used). Mr E's bank statements also show that for two out of three months, his outgoings were greater than his income. In my view, if Virgin Money had carried out better checks, like looking at Mr E's bank statements, it would've found he was unlikely to be able to support additional borrowing and sustainably manage further repayments.

Based on the information available, I think Virgin Money lent irresponsibly when it approved a new credit card with a limit of £5,300 for Mr E in December 2021. As a result, I'm upholding Mr E's complaint.

My final decision

My decision is that I uphold Mr E's complaint and direct Clydesdale Bank Plc trading as Virgin Money to settle as follows:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied since inception
- If the rework results in a credit balance, this should be refunded to Mr E along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Virgin Money should also remove all adverse information regarding this account from Mr E's credit file
- Or, if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mr E for the remaining amount. Once Mr E has cleared the balance, any adverse information in relation to the account should be removed from their credit file

*HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. It must give Mr E a certificate showing how much tax has been taken off if he asks for one. If it

intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 31 January 2024.

Marco Manente
Ombudsman