

The complaint

Ms C complains that Bank of Scotland plc trading as Halifax irresponsibly gave her a credit card she couldn't afford.

What happened

In December 2019, Ms C applied for a credit card with Halifax. She was given an initial credit limit of £5,000. The limit was never increased.

Ms C reached out for support from a debt charity as she was struggling financially and the debt charity informed Halifax. Halifax says that when it was notified by the charity it arranged to close her account in January 2022 to prevent further spending and allow her to repay the outstanding balance.

Ms C complained to Halifax in October 2022 to say that the credit card should never have been given to her as it was unaffordable from the outset. Halifax didn't uphold her complaint and said it was satisfied it had carried out adequate checks during the application which didn't reveal any affordability concerns.

Our adjudicator didn't recommend the complaint be upheld. He said that he didn't think Halifax's affordability checks had gone far enough. He thought Halifax ought to have tried to find out more about Ms C's committed expenditure. However, from the information Ms C had supplied, he didn't think further checks would have revealed any affordability concerns. He therefore didn't think Halifax had made an unfair lending decision.

Ms C disagreed. In summary, she said that her committed expenditure was much higher than our adjudicator had calculated and that given her medical conditions (which were undiagnosed at the time of application) Halifax ought not to have lent to her.

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 Ms C with credit, Halifax needed to ensure it was satisfied she could sustainably afford the borrowing. There isn't a set list of checks they were required to complete. Instead, the rules in place at the time set out that any checks completed needed to be proportionate to the circumstances. What this means is that there isn't a one-size-fits-all approach to what checks should be completed. To decide what would be proportionate in the case of a credit card, Halifax needed to take into consideration things such as (but not limited to): the size of the credit limit, the cost of credit, what reasonable regular repayments would likely be if the full credit was utilised as soon as possible and Ms C's circumstances.

As part of the application, Halifax says Ms C declared an annual income of around £39,000. She said she had three dependents, a monthly mortgage/rental commitment of £600 and

had £150 of other monthly commitments. She also stated she held no other credit cards.

Halifax says it completed a credit check in addition to the information Ms C provided and found no repayment issues or signs of financial difficulty. It therefore concluded the new credit limit of £5,000 would be affordable.

Halifax hasn't provided us with the copy of its credit check. However, I've seen a copy of Ms C's credit report that she has provided. In the absence of the checks Halifax completed, I'm satisfied these provide a good indication of what Halifax likely saw.

It seems Ms C held three other credit cards at the time with combined credit limits of around £12,000 and it seems she had used up almost all of that available credit. She also had two loans for a total of around £5,000. On the application she had declared she had no credit card debt and Halifax ought to have been able to see from its credit checks that wasn't the case. I think this ought to have caused it to question the expenditure information Ms C had declared on the application form. I therefore don't think Halifax completed reasonable and proportionate affordability checks before lending. I think it ought to have gained a better understanding of her outgoings before proceeding with the application.

I can't be certain what Ms C would have declared if she'd been asked more information about her committed expenditure at the time. However, I've reviewed the copies of her bank statements she's supplied, and I think these give a fair indication of what would likely have been disclosed if Ms C had been asked.

These show that her income was made up of salary, some benefits and a regular weekly payment from a third party. The total monthly income was several hundred pounds lower than she had declared. However, the statements also indicate her outgoings were not as high as she has told us (but more than she declared on her application). It seems likely Ms C held other accounts and/or that some income and expenditure was shared with her partner as I can see regular transactions between them on her statements and expenditure such as her joint mortgage isn't visible on the statements she's provided. But as this is what she's provided to our service when trying to demonstrate the credit card was unaffordable, I find it unlikely she would have given Halifax more information if asked.

Although Ms C says she was living in her overdraft, the bank statements she's provided show that the account regularly went into a positive balance and she was able to meet her existing commitments without obvious signs of difficulty. While she did utilise her overdraft, that in itself doesn't mean Halifax shouldn't have lent to her, especially as it did always go back into credit. So even if I thought Halifax ought to have reviewed her banks statements before lending, I don't think it would have seen anything in the statements she's provided that ought to have concerned it about the affordability of this new credit card.

I've also noted that when Ms C took out the Halifax credit card, she used almost the entire credit limit to transfer balances from two other credit cards (and reduce her debt on those). This is relevant because I think it's likely this is what Ms C would have told Halifax she was using the card for if she'd been asked more questions about her expenditure. Therefore, Halifax would have been entitled to assume that granting this credit facility wouldn't have increased her overall debt.

While I accept it's possible that Ms C couldn't afford this Halifax credit card at the time, I've not seen any persuasive evidence to suggest that reasonable and proportionate checks would have likely revealed any concerns about affordability. For these reasons, I don't think Halifax made an unfair lending decision in giving Ms C the credit card.

I've seen that in the months following her taking out this credit card she took out further

unsecured borrowing, and rather than closing the credit cards she had completed balance transfers on, she continued spending on them. However, as it appears she was managing her debt repayments until the debt charity intervened, I don't think Halifax ought to have necessarily realised anything was wrong and proactively done anything until the point it was notified. The steps it took to prevent further spending on the account in 2022 were reasonable.

Lastly, Ms C has told us about her medical conditions and I understand why she says this ought to have made Halifax reconsider lending to her. However, as these conditions weren't disclosed to Halifax and they would have had no reasonable way of knowing about them (Ms C accepts she wasn't diagnosed at the time), I can't fairly say they acted unreasonably in lending to her.

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 Ms C to accept or reject my decision before 1 September 2023.

Tero Hiltunen
Ombudsman