

The complaint

Mr G complains Clydesdale Bank Plc trading as Virgin Money lent to him irresponsibly.

What happened

Mr G successfully applied for a credit card with Clydesdale in July 2018. When his application was approved, he was given a £9,000 credit limit.

Mr G's complained Clydesdale lent to him irresponsibly because he had a large amount of debt with other creditors and was receiving benefits at the time the credit card was taken out. He's unhappy as he fell into financial difficulties which resulted in his credit card account being defaulted and managed by a debt collection agency (DCA).

When raising his complaint, Mr G asked Clydesdale to refund the interest and charges, and the £1,300 he paid to settle the account with the DCA.

Clydesdale looked into Mr G's concerns but didn't uphold his complaint. They were satisfied they carried out sufficient checks before making their lending decision and didn't agree there were signs the credit card wouldn't be affordable for Mr G's circumstances. Mr G remained unhappy, so he brought his complaint to our service.

Our Investigator felt Mr G's complaint should be upheld because she didn't consider Clydesdale had carried out proportionate checks. She explained had they done additional checks, they ought to have realised Mr G's income wasn't as high as indicated in his application, and that he was somewhat reliant on credit at the time of his application.

Clydesdale disagreed with our Investigator and questioned why Mr G entered incorrect information about his income on his application – and in turn, didn't agree it was fair to conclude their checks weren't proportionate.

Our Investigator wasn't persuaded to change her opinion, so this complaint was passed to me for a final decision.

I should clarify my decision will only be commenting on Clydesdale's lending decision. I'm aware there have been some disagreements about what actions Clydesdale might take given the information they were provided during the application process. However, I've not seen evidence of what has or hasn't happened regarding this point. Despite this, these issues occurred after the irresponsible lending complaint was brought to our service, so it would need to be a separate complaint if Mr G is unhappy about this particular point.

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.

Having considered everything, I'm upholding Mr G's complaint – but not in the way he had asked. I'll explain my reasoning below.

We've set out our approach to unaffordable and irresponsible lending complaints on our website – including the relevant rules, guidance, good industry practice and law. And this is what I've considered when deciding Mr G's complaint. Having done so, it's important that I explain in cases like this, when we consider borrowing shouldn't have been approved, our usual approach is that the customer isn't made to repay any interest, charges and/or fees that may have been applied. But we would still expect them to repay the capital they borrowed because they had use of the funds.

Did Clydesdale carry out reasonable and proportionate checks?

In Mr G's credit card application, he said he was earning £45,000 per year and this is the information Clydesdale relied on at the time. Clydesdale also, carried out credit checks, but these didn't show any recent late payments, defaults or CCJs. They also verified Mr G's income using credit reference agencies, and these checks suggested he had a net monthly income of just under £3,000. They noted he had unsecured debts totalling over £14,000, but their checks suggested Mr G would be left with a disposable income of just under £700 each month. As such they felt offering a £9,000 credit limit would be affordable for Mr G's circumstances.

While Clydesdale considers their checks suggested the credit card was affordable, I'm not persuaded they did. I say this because the checks showed that Mr G already had over £14,000 of unsecured debt – of which approximately £10,000 stemmed from revolving credit. So, offering Mr G an additional £9,000 of borrowing meant he would have access to borrowing that amounted to over half of his annual salary. I consider in such circumstances; a responsible lender would want to make additional checks to properly satisfy themselves the further borrowing was not only affordable – but able to be repaid in a sustainable way.

What would the additional check have shown?

It's not for our service to say what additional checks should have been carried out. But we have reviewed Mr G's banks statements for the two months prior to taking out the credit card. These showed that his monthly income was significantly less than the amount Mr G indicated on his application and what Clydesdale believed from their credit checks. I've seen that Mr G was earning, on average, £1,400 each month. I've also seen that Mr G was frequently using his arranged overdraft and had utilised a cash advance of over £2,500 from another credit card.

Had Clydesdale carried out additional checks, as I would have expected, they ought to have seen indicators that Mr G was becoming reliant on credit to manage his everyday finances – and that he didn't have enough of a disposable income to afford further credit.

As the evidence suggests Mr G couldn't sustainably make repayments to this credit card, I'm persuaded that his complaint should be upheld.

I'm aware Clydesdale disagree with this complaint being upheld – partly because it has now become apparent that Mr G input incorrect information about his annual salary. But Mr G has told our service he wasn't aware he did this, and that it may have happened due to a condition that he has. But in any event, I don't consider that changes things in this case. That's because even if the higher salary was accurate, I still consider additional checks were necessary given the information Clydesdale had available before they made their lending decision.

Putting things right

As mentioned above, I don't consider Clydesdale treated Mr G fairly when they gave him this

credit card. So, they need to take steps to put things right.

While Mr G shouldn't have been given the credit card, he did make use of the funds he borrowed, so it's only fair that he repays what he spent. However, as he shouldn't have had the borrowing, I don't consider it would be fair for him to pay any interest, fees and/or charges on that borrowing. As such, Clydesdale should do the following to put things right:

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

As Clydesdale has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Clydesdale to deduct tax from any award of interest. They must give Mr G a certificate showing how much tax has been taken off if he asks for one. If they intend to apply the refund to reduce an outstanding balance, they must do so after deducting the tax.

My final decision

My final decision is that I'm upholding Mr G's complaint. Clydesdale Bank Plc trading as Virgin Money should do as I've directed above to resolve this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 28 March 2024.

Sarrah Turay
Ombudsman