

The complaint

Mrs C says Clydesdale Bank Plc, trading as Virgin Money, irresponsibly lent to her.

What happened

Mrs C took out a credit card from Virgin Money on 19 July 2021. She was given a £3,500 credit limit and used £3,300 to transfer a balance from another card onto a 0% promotional interest rate. When she missed a payment in September 2022, the promotional rate was withdrawn - in line with the terms and conditions of the account.

Mrs C says she should never have been given the credit given her circumstances at the time; the lender did not complete proper due diligence. Also, she is unhappy that when she explained to Virgin Money that removing the interest free rate would put her into financial difficulties it offered no support. This has created stress for her as she is constantly juggling bills and using credit pay for essential items to ensure this card is always paid. She asks for all interest and charges to be refunded to her, with interest, and any adverse information to be removed from her credit file.

Virgin Money says it carried out proportionate checks and there was nothing to suggest Mrs C was financially vulnerable. In addition, Mrs C was given details of the interest rates that would apply to her account. It has applied interest in line with these terms and conditions. It signposted both its internal team that supports customers in financial difficulties and external organisations that could help her.

Our investigator issued two assessments. I will summarise the most recent as that is the current view of this service. This upheld Mrs C's complaint. It found Virgin Money's checks were not proportionate and better checks would most likely have shown the credit was not affordable for Mrs C.

Virgin Money disagreed with this assessment. In summary, it set out the income assumptions it had relied on saying the regulator allows for household income to be considered where there is evidence of a financial association. And it had verified Mrs C's income declarations. If Mrs C is saying her income was less than declared it would ask why she overstated it. Its credit search showed no adverse data and that Mrs C's existing debt was well-managed. Its checks showed Mrs C had enough disposable income to afford the card.

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 Mrs C'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 Mrs C 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 Mrs C'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 Mrs C. These factors might include Mrs C's income, how much the repayments were, the frequency of the borrowing and how long Mrs C had been indebted.

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

I can see Virgin Money asked for some information from Mrs C when she applied. It asked for her gross annual income and her household income. It asked about her housing costs. carried out a credit check to understand her credit history and existing credit commitments. From these checks it concluded Mrs C would be able to afford the card.

I am not satisfied these checks were proportionate in the circumstances of this application. I'll explain why. Mrs C declared an income of £20,000 which gave a net monthly income of £1,438. Virgin Money knew from the credit check she already had existing credit commitments of £417. So she was already spending a significant proportion of her relatively low income on credit. And this can be an indicator of pending financial difficulties. So I think at this stage Virgin Money ought to have carried out a fuller financial review to ensure the credit would be sustainably affordable for Mrs C.

I accept she was opening this card to take advantage of a balance transfer offer, which could have been financially helpful for Mrs C, rather than harmful. But I've seen no evidence that Virgin Money took steps to understand whether or not Mrs C intended to close the other line of credit after she moved the balance so it did not know with any certainty how this card would impact her. I know Virgin Money argues it was entitled to consider household income, but if it is to rely on it to defend the affordability of the credit it would need to have also understood the household credit commitments and other fixed living expenses. I have seen no evidence it did this.

In cases like this where we find better checks were needed we look at the applicant's bank statements for the three months prior to application. I am not saying Virgin Money had to do exactly this but it is a reliable way for me to understand what better checks would most likely have shown the lender.

From Mrs C's statements I can see she was not in receipt of a monthly income of £1,438. Indeed she had only received one payment of £500 in the three-month period (she was self-employed) and was reliant on universal credit. Whilst the lender would have been entitled to take into account her income from benefits, it was not at a level such that Mrs C had the income she'd declared. And given her lower actual income I think any additional credit was not affordable for Mrs C.

Virgin Money has explained why it was reasonable to consider the household income, but in addition to the concern I have noted above, given the value in the discrepancy between what Mrs C declared and her actual incomings at this time, this does not change my conclusion. It also argues that it relied on what Mrs C declared and so we must take into account that she made an inaccurate declaration. However, Virgin Money had an obligation to carry out proportionate checks before lending and had it done so it would have been able to complete its assessment using Mrs C's actual income.

It follows I find Virgin Money was wrong to lend to Mrs C.

Did Virgin Money treat Mrs C unfairly in some other way?

I have thought about Mrs C's dissatisfaction that the lender removed the 0% interest rate when she missed a payment by a few days. But she had breached the terms of the offer and it acted in line with the terms of her account. So whilst I can see why it upset her, I cannot fairly find Virgin Money acted in error in this regard.

She also says that she explained to Virgin Money that she would have financial difficulties if the offer was removed. I have listened to the relevant call between the parties. Mrs C said she could not afford to pay the interest and the adviser explained that if she contacted her bank and asked it to provide the reason why her payment failed with proof there were funds in the account, it could review the status of the promotional offer. But it seems Mrs C never did this. I think the lender's initial response was reasonable so I am not making any compensatory award or instructing it to do anything.

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 Mrs C 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 Mrs C having made overpayments these should be refunded to Mrs C 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 Mrs C.
- Once Mrs C 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 Mrs C with the appropriate tax certificate so she can submit a claim to HMRC if applicable. If it intends to apply the refund to reduce an outstanding balance it must do so after deducting tax.

My final decision

I am upholding Mrs C'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 Mrs C to accept or reject my decision before 19 March 2024.

Rebecca Connelley
Ombudsman