

The complaint

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

What happened

Miss M took out two credit cards from Virgin Money. The first card was opened in October 2017 with a credit limit of £10,000. The second was opened in June 2018 with an £11,000 credit limit.

Miss M says Virgin Money did not do appropriate checks, she already had a lot of credit and has ended up in more debt as a result.

Virgin Money says it completed proportionate checks before lending to Miss M.

Our investigator upheld Miss M's complaint. He said Virgin Money's checks were not proportionate and better checks would have shown Miss M was unlikely to be able to afford the credit.

Virgin Money disagreed with this assessment and asked for an ombudsman's review. It said it accepted that it ought not to have given the second card to Miss M. But it said even with a lower actual income at the time of the first card, Miss M had ample disposable income. Her credit file showed her active accounts were well-managed. It reviewed her bank statements as the investigator had, and said whilst there are a number of payday loan transactions prior to this application Miss M's account was comfortably run within the £250 overdraft limit and payments to another credit card provider appear to be over the minimum required.

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 M'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 M 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 M'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 M. These factors might include Miss M's income, how much the repayments were, the frequency of the borrowing and how long Miss M 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 M in some other way.

I can see Virgin Money asked for some information from Miss M when she applied for both cards. 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 credit checks to understand her credit history and existing credit commitments. It asked about her household income, her residential status and her housing costs. From these checks combined it concluded Miss M would be able to afford the cards.

As Virgin Money has agreed that it ought not to have given the second card I need not comment any further on that lending. I will focus here on the first account that remains in dispute.

I am not satisfied the checks detailed above were proportionate based on the initial results they returned. I say this because they showed that Miss M was already spending a high proportion of her income on her existing credit commitments. So I find Virgin Money ought to have completed a fuller financial review before agreeing to lend. I appreciate Miss M was transferring in a balance of £7,600 and so Virgin Money argues she would be benefitting financially from its 0% promotional interest rate. But it was offering her an account with a range of interest rates. It did not know how she would use it, and nor did it know that she would not reuse the credit line she was freeing up on her other card. So I think it needed better assurances that its lending would not cause financial harm to Miss M before approving her application.

I have looked at Miss M's bank statements from the months prior to her application. I am not saying Virgin Money had to do exactly this but it is a reliable way for me to recreate what better checks would most likely have shown the lender. They show her actual monthly income was around £3,064 – so lower than the £3,306 that she declared and Virgin Money used to assess affordability. I appreciate Virgin Money verified her income using current account turnover data but as it knows this can include credits that are not salary or benefits.

Miss M already needed to spend £1,299 each month on her credit commitments (assuming a 5% repaying rate on revolving credit) – so over 40% of her income. At that level I think Virgin Money ought to have been concerned – as the industry know such a ratio between unsecured credit repayments and income can be an indicator of pending financial difficulties. There were other items on the bank statements that suggested Miss M was already under financial pressure too – she was using high-cost short-term credit and was frequently using her overdraft facility. So I think it would have been responsible for Virgin Money to decline her application, recognising that there was a high risk Miss M was already over reliant on credit - and that any further lending would most likely have adverse financial consequences.

It follows I find Virgin Money was wrong to give the first card to Miss M. I have not seen any evidence Virgin Money acted unfairly towards Miss M in some other way.

Putting things right on both credit cards

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

Therefore, Virgin Money should:

- Rework the accounts removing all interest, fees, charges and insurances (which have not

already been refunded) that have been applied.

- If this results in Miss M having made overpayments these should be refunded along with 8% simple interest (calculated from the date of overpayment to the date of settlement)*.
- If this results in an outstanding balance(s), Virgin Money should agree an affordable repayment plan with Miss M, treating her fairly and with forbearance as appropriate.
- Once Miss M has cleared any outstanding capital balance(s), any adverse information in relation to the accounts should be removed from her credit file.

*If Virgin Money deducts tax from the interest element of this award, it should provide Miss M with the appropriate tax certificate so she can submit a claim to HMRC if applicable. If it intends to apply the refund(s) to reduce an outstanding balance(s) it must do so after deducting the tax.

My final decision

I am upholding Miss M'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 M to accept or reject my decision before 1 April 2024.

Rebecca Connelley
Ombudsman