DRN-4715825

The complaint

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

What happened

Mrs D applied for a credit card from Virgin Money in February 2019. She was given a limit of £4,300. She says Virgin Money did not complete enough checks, she had lots of other credit commitments and was reliant on her overdraft for at least half the month, every month.

Virgin Money said it carried out checks using the data Mrs D provided at application and information held by the credit reference agencies. The account and limit it allocated were appropriate based on Mrs D's circumstances at the time.

Our investigator upheld Mrs D's complaint. She said Virgin Money did not make a fair lending decision based on the information it gathered.

Virgin Money disagreed and asked for an ombudsman's review. It said its decision was sound given the available information. It would still approve such an application today as the debt-to-income ratio is 'within appetite'. And Mrs D's account has been well managed – she has not contacted Virgin Money to say she's struggling with the repayments.

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 Mrs D'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.

This means to decide Mrs D's complaint I need to assess if Virgin Money carried out proportionate checks; if not, what would better checks have shown; if so, did it make a fair lending decision; and finally, did Virgin Money act unfairly towards Mrs D in some other way.

I've looked at the information Virgin Money obtained during the application process. I can see that Virgin Money took details of Mrs D's income as well as the total household income, and her housing costs. It verified her declared income using a current account turnover tool and checked her mortgage payment on her credit file. It completed a credit check to understand her existing credit commitments and credit history. It has shared the results of these checks. It also says it allocated an amount for essential living expenses but I am not clear on what basis, or how much. From these checks combined Virgin Money concluded

Mrs D had a household disposable income of £520 and so she could afford a credit limit of £4,300.

I think these checks were proportionate but I am not persuaded Virgin Money made a fair lending decision based on the information it gathered. I'll explain why.

From Virgin Money's submission it is clear the credit card limit of £4,300 was approved on the basis of the household income rather than Mrs D's sole income. Virgin Money states that FCA (Financial Conduct Authority) guidance allows for use of household income. And that it only utilises household income when there is evidence of a financial association as there was here.

I accept that CONC 5.2A.12 (R) section 2b) allows for lenders to take into account income received by another person in so far as it is reasonable to expect such income to be available to the customer to make repayments under the agreement. But I can't see Virgin Money took any steps to meet its obligation to check that Mrs D's husband's income would be available to make the repayments here. And as the borrowing was 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.

And if I consider the affordability of the lending decision based on the Mrs D's sole income I do not find it was fair for Virgin Money to lend as it did. I say this as it knew Mrs D had a net monthly income of £1,925. And that she had £20,500 of revolving debt that it estimated was costing her £969 a month. So she was already spending half her income on unsecured credit each month. I think at this level Virgin Money ought to have realised there was a high risk any further lending would be financially harmful for Mrs D.

It says that the debt-to-income ratio was 'within appetite' but I would remind it that its is obliged to consider the likely impact of the repayments on the applicant, not just the likelihood of it getting its money back. It has also pointed out that Mrs D has made her repayments on time but it does not know how she had done this and whether or not she has borrowed to repay - which is likely given her stated reliance on her overdraft. So that does not change my conclusion.

And this is without even taking into account that her mortgage was £846 a month. Assuming she paid only half of this amount (she and her husband had similar annual incomes), after taking on this new card (and allowing for Mrs D to repay the full limit over a reasonable period of time) Mrs D would most likely not have sufficient disposable income to cover her living costs. I say this as she would be left with just £308 a month after repaying her secured and unsecured credit commitments (net income of £1,925 minus 50% of the mortgage at £423 minus £969 on existing credit minus £225 to repay this card).

It follows I think Virgin Money was wrong to give this card with its £4,300 limit to Mrs D. I have not seen any evidence it has treated her unfairly in some other way.

Putting things right

It is fair that Mrs D repays the capital she has borrowed as she has had the benefit of that money. But it is not fair she pays interest and charges on an account that should not have been given to her.

Virgin Money must:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to date

- If the rework results in a credit balance, this should be refunded to Mrs D 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 Mrs D’s credit file
- Or, if after the rework there is still an outstanding balance, Virgin Money should arrange an affordable repayment plan with Mrs D for the remaining amount. Once Mrs D has cleared the balance, any adverse information in relation to the account should be removed from her credit file

*HM Revenue & Customs requires Virgin Money to deduct tax from any award of interest. It must give Mrs D a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I am upholding Mrs D’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 D to accept or reject my decision before 17 May 2024.

Rebecca Connelley
Ombudsman