

The complaint

Miss G is complaining about Barclays Bank UK PLC trading as Barclaycard because she says it lent irresponsibly by granting a credit card she couldn't afford.

What happened

Following her application, in May 2018, Miss G was given a credit card with a credit limit of £5,000. This limit was never increased.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be upheld. My reasons were as follows:

Before lending to Miss G, Barclaycard was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider are:

- *Did Barclaycard complete reasonable and proportionate checks to establish that Miss G would be able to repay the credit in a sustainable way?*
- *If so, was the decision to lend fair and reasonable?*
- *If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?*

The rules, regulations and good industry practice in place at the time the credit was approved required Barclaycard to carry out a proportionate and borrower-focused assessment of whether Miss G could afford the repayments. This assessment also had to consider whether the credit could be repaid sustainably. In practice this meant Barclaycard had to satisfy itself that making payments to the credit wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of her making payments, it had to consider the impact of the repayments on Miss G.

The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.

In general, I think a reasonable and proportionate assessment should be more thorough:

- *the lower the customer's income, reflecting that it could be more difficult to make repayments from a lower level of income;*
- *the higher the amount due to be repaid, reflecting that it could be more difficult to meet a higher repayment from a particular level of income;*

- *the longer the term of the credit, reflecting the fact that the total cost is likely to be greater and the customer is required to make payments for an extended period; and*
- *the greater the instances and frequency of credit, and the longer the period of time during which a customer has been given credit, reflecting the risk that repeated refinancing may signal borrowing has become unsustainable.*

There may also be other factors that could influence how detailed a proportionate check should have been for a given application, including any indications of borrower vulnerability or foreseeable changes in future circumstances.

Barclaycard has described the information it gathered to assess whether Miss G's credit was affordable before it was approved. This included:

- *information contained in her application, including her employment status and her income, which was separately verified;*
- *information obtained from a credit reference agency (CRA), giving details of her existing credit arrangements and any past issues with credit, including missed payments and defaults; and*
- *an expenditure assessment using a combination of modelled data for key expenses, along with actual data from the CRA about the cost of her existing credit arrangements.*

Barclaycard maintains its affordability assessment was proportionate to the credit being given and demonstrated it was affordable.

After carefully reviewing the information Barclaycard has provided, I don't think I can reasonably conclude its affordability checks were proportionate in this case. I say this for the following reasons:

- *The information provided from Barclaycard's credit check is limited. It shows Miss G already had two credit cards with a balance of over £5,000. While this isn't necessarily a high amount compared to her income and she appears to have been up to date with payments, there's nothing to indicate what the limits were on the cards. Without this information it is difficult to assess whether she was managing them well.*
- *More fundamentally, the proposed limit of £5,000 on the new card was high and actually doubled the amount of revolving credit available to Miss G.*

Taking these factors into account, I don't agree the affordability assessment based mainly on modelled statistical data, rather than Miss G's actual circumstances, was reasonable and proportionate in this case. In my view, further checks were required to complete a proportionate affordability assessment.

I can't know exactly what further checks Barclaycard might have carried out at the time, but I think a consideration of Miss G's actual income and expenditure would have been reasonable. So we've obtained copies of her bank statements for the three months prior to the lending to establish what information could reasonably have been discovered.

The statements show Miss G was paying the mortgage and other key bills. She received regular payments from her partner that she says was his contribution towards these expenses and I think it's reasonable to take these payments into account when assessing her financial situation. A review of the statements reveals the following:

- *In addition to the credit commitments identified by Barclays, Miss G was making regular monthly payments totalling approximately £35 to two debt collection agencies. I understand this related to payday loans she'd taken in the past that had defaulted.*
- *Miss G was also making regular monthly payments of £60 entitled 'mum – uni loan', which appears to show she had other debts that weren't identified in Barclaycard's credit search.*
- *While the account wasn't regularly overdrawn, the balance was low for much of each month and close to £0 prior to her payday at the end of each month.*

In considering whether the credit being offered was affordable, Barclaycard needed to consider whether Miss G could afford to make more than the minimum payment. In my view, she'd have needed to pay at least £200 per month to repay £5,000 over a reasonable period of time and I don't think her bank statements show this would have been affordable.

If Barclaycard had seen this information, it's my view that it shouldn't have offered Miss G a card with a limit of £5,000.

Miss G has also provided later statements that show her income did indeed fall considerably following the birth of her child and she believes Barclaycard should have asked whether her circumstances were likely to change. While there's no specific requirement for lenders to ask this, I think it would have been a reasonable question for Barclaycard to ask here if it would still have considered lending after a review of Miss G's actual income and expenditure. This would only have reinforced the view I believe Barclaycard should already have formed that it wasn't a reasonable decision to lend to Miss G.

In summary, if Barclaycard had adequately assessed whether the credit repayments were affordable and sustainable, it's my view it shouldn't have lent to Miss G. It's for this reason that that I'm currently proposing to uphold her complaint.

Miss G accepted my provisional decision. Barclaycard didn't and made the following key points:

- The rules suggest lenders carry out more detailed checks if statistical data doesn't allow them to reasonably assess the customer's affordability. In this case it believes its checks were proportionate and there was nothing to suggest there would be a problem so no further checks were necessary.

The onus was on Miss G to declare any expected changes to her circumstances. She was asked about this in her application but didn't provide any details.

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 done so, my findings haven't changed from those I set out previously. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and

regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

I explained in my provisional why I don't agree that Barclaycard carried out a proportionate affordability assessment in this case. This view is based mainly on the amount of revolving credit Miss G already had and the amount of additional credit she was being offered.

I've also explained why the information Barclaycard could have obtained at the time, by reviewing Miss G's bank statements for example, should have led it to conclude the proposed lending was unaffordable. I agree the onus was on Miss G to explain her circumstances were set to change if she was asked the question, but I think my provisional decision is clear that I believe Barclaycard should have concluded the lending was unaffordable whether or not it was aware of the upcoming changes.

Putting things right

The principal aim of any award I make must be to return Miss G to the position she'd now be in but for the errors or inappropriate actions of Barclaycard. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think Barclaycard should have lent to Miss G, I don't think it's fair for her to pay interest or charges on the amount borrowed. But she has had use of the money that was lent, so I think it's fair she repays the amount borrowed (without the addition of interest or charges).

To put things right, Barclaycard should take the following steps:

- Rework the account to remove all interest, fees, charges and insurances (not already refunded) that have been applied since it was opened.
- If the reworking results in a credit balance, this should be paid to Miss G with the addition of simple interest at 8% per year from the date of each overpayment to the date of settlement.

HM Revenue & Customs (HMRC) requires Barclaycard to deduct tax from any interest. It must provide Miss G with a certificate showing how much tax has been deducted if she asks for one. If Barclaycard intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

- Or, if after the reworking there's still an outstanding balance, Barclaycard should arrange an affordable payment plan with Miss G for the shortfall.
- Remove any adverse information recorded on Miss G's credit file relating to this credit, once any outstanding balance has been repaid.

If Barclaycard no longer owns the debt, it should liaise with whoever does to ensure any payments Miss G has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

I'm satisfied this represents a fair and reasonable settlement to this complaint.

My final decision

For the reasons I've explained, I'm upholding Miss G's complaint. Subject to her acceptance, Barclays Bank UK PLC trading as Barclaycard should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss G to accept or reject my decision before 19 June 2024.

James Biles
Ombudsman