

Complaint

Mr P has complained about a credit card Capital One (Europe) plc (“Capital One”) provided to him. He says that the credit card and the subsequent limit increase were unaffordable.

Background

Capital One provided Mr P with a credit card that had an initial limit of £1,500.00 in March 2020. Mr P’s credit limit was then increased to £2,000.00 in February 2021.

One of our investigators reviewed what Mr P and Capital One had told us. And he thought Capital One hadn’t done anything wrong or treated Mr P unfairly in relation to providing the credit card or increasing Mr P’s credit limit.

So he didn’t recommend that Mr P’s complaint be upheld. Mr P disagreed and asked for an ombudsman to look at the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I’ve decided not to uphold Mr P’s complaint. I’ll explain why in a little more detail.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr P’s complaint.

Capital One needed to make sure it didn’t lend irresponsibly. In practice, what this means is Capital One needed to carry out proportionate checks to be able to understand whether Mr P could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Capital One says it initially agreed to Mr P’s application after it obtained information on his income and carried out a credit search. And the information obtained indicated that Mr P would be able to make the low monthly repayment due on this credit card. It says similar checks were carried out before Mr P’s credit limit was increased and this also shows that the increase was affordable.

On the other hand Mr P says that credit card and limit increase were unaffordable.

I've considered what the parties have said.

What's important to note is that Mr P was provided with a revolving credit facility rather than a loan. And this means that to begin with Capital One was required to understand whether a credit limit of £1,500.00 could be repaid within a reasonable period of time, rather than in one go. A credit limit of £1,500.00 didn't require especially large monthly payments in order to clear the full amount owed within a reasonable period of time.

I've seen records of the information Capital One obtained from Mr P about his income and what was on the credit search carried out. The credit search did show that Mr P had had previous difficulties with credit in the form of a defaulted account. However, was from over two years prior to this application.

The credit search also showed that Mr P had some active credit at this stage. But this was for low amounts and they were also relatively well maintained. Capital One says that Mr P declared a salary of £33,000.00 a year and this combined with the credit file information meant that it was reasonable to conclude that Mr P could afford this credit card. As this is the case, I'm satisfied that it was fair and reasonable for Capital One to offer Mr P a credit card with a limit of £1,500.00.

For the limit increase Capital One has relied upon carrying out similar checks. However, as a result of the credit limit increase, there was the potential that Mr P could owe £2,000.00. As this is the case, I would have expected Capital One to have found out more about Mr P's actual regular living expenses before increasing his limit to £2,000.00.

As Capital One has been unable to evidence having done this in this instance, it says that it used average data, I don't think that the checks it carried out before it provided this credit card were reasonable and proportionate.

Ordinarily, where a firm failed to carry out reasonable and proportionate checks before providing credit, I'd usually go on to recreate reasonable and proportionate checks in order to get an indication of what such checks would more likely than not have shown.

So, in this case, I'd use information provided now in order to work out Mr P's actual living costs and see whether this information is likely to have shown that the payments required are likely to have been unaffordable. Having done this, I've not seen anything to indicate that Capital One would have concluded that Mr P's actual living costs – rather than the assumptions it used in its affordability assessment – meant the payments to this credit card were unaffordable.

I accept that Mr P says that his actual circumstances at the time were worse than what the information Capital One obtained showed. However, as I can't see that his actual living expenses were much higher than what Capital One assumed, I don't think that Capital One could reasonably be expected to know that Mr P's circumstances were worse than what proportionate checks are likely to have shown, or that this may have resulted in the limit increase being unaffordable.

So given I can't see that requesting further information about Mr P's actual living costs, would have shown Capital One that it shouldn't have increased Mr P's credit limit, I'm not persuaded that it doing more here would, in any event, have made a difference to its decision and I don't think that it was unreasonable to provide the credit limit increase either.

In reaching my conclusions, I've also considered whether the lending relationship between Capital One and Mr P might have been unfair to Mr P under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I've not been persuaded that Capital One irresponsibly lent to Mr P or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

Overall and having considered everything, while I can understand Mr P's sentiments and I'm sorry to hear about his situation, I don't think that Capital One treated Mr P unfairly or unreasonably. It carried out proportionate checks and reasonably relied on the information provided which suggested that the credit card was affordable. And for the credit limit increase while Capital One perhaps should have obtained more information about Mr P's living costs doing so will not have resulted in it doing anything differently.

Consequently I'm not upholding Mr P's complaint. I appreciate this will be very disappointing for Mr P. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 13 January 2025.

Jeshen Narayanan
Ombudsman