

The complaint

Mr C complains that MBNA Limited (MBNA) lent to him irresponsibly.

What happened

In August 2016, Mr C applied for a credit card from MBNA. It was approved with a limit of £6,700. Then further increases were requested by Mr C, and approved by MBNA:

Date	Limit
August 2016 (New card)	£6,700
February 2017	£10,000
October 2017	£15,000

Requests for increases were declined by MBNA as follows:

Date of decline	Limit requested
March 2017	£15,000
April 2017 (two requests)	£15,000 each
May 2017	£15,000
June 2017	£20,000
June 2017	£15,000
October 2017	£20,000
November 2017	£20,000
November 2017	£17,500
January 2018	£20,000

There were three balance transfers – in August 2016 (£6,014); February 2017 (£8,320); June 2017 (£8,185). In May 2018, Mr C contacted MBNA and said he was in financial difficulty. MBNA stopped charging interest and fees and agreed a payment plan of £70 a month. A notice of default was sent to Mr C in October 2018. The debt was sold to a debt collection agency in February 2019.

Mr C complained – he said that as a result of MBNA lending him more money, he was drowning in debt. At the time when MBNA increased his limit to £15,000, he had three other cards with total limits of £29,800. He had taken on two full time jobs to try to pay his debts and meet his obligations. More recently, he has contracted a serious illness and had been signed off work until the end of December 2021.

MBNA said that Mr C passed their credit checks at each increase. Their information said Mr C could afford the increased borrowing. They'd declined several other requests for increases – as responsible lenders. They didn't know anything about Mr C's financial difficulties at the time - until he told them later.

Mr C brought his complaint to us and our investigator said that MBNA had acted responsibly when first issuing the card in August 2016 and when agreeing to the first increase to £10,000 in February 2017. But hadn't lent responsibly when increasing Mr C's limit to £15,000 in October 2017. At that time, Mr C had said his income was £50,000 a year, but MBNA could see that his total debts had increased significantly since the earlier checks. He'd also incurred a late payment fee and an over limit fee recently. And – there had been six declined applications for increased limits between March 2017 and June 2017. All this suggested that they shouldn't have increased his limit in October 2017. She said MBNA should refund interest and fees charged on borrowing over £10,000 since October 2017 to date, and that 8% per annum simple should be added to payments that Mr C had made. And – any adverse information advised to Mr C's credit file since that time should also be deleted. A suitable repayment programme should be agreed for the remaining debt.

MBNA didn't agree. They agreed with us - that Mr C had revolving debts of £20,000 in October 2017. But that was a 40% debt to income ratio – given his salary of £50,000. This was within their risk appetite – he passed MBNA's credit tests. Our investigator considered MBNA's further points but didn't change her mind. In mid-September 2021, she asked MBNA for any further comments – but MBNA haven't provided any. So – Mr C's complaint has now come to me to look at to make a final decision.

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.

All lenders have an obligation to lend money responsibly. We must check whether MBNA acted in line within the Financial Conduct's (FCA) rules on creditworthiness assessment as set out in its handbook, (CONC) section 5.2. These say that a firm must undertake a reasonable assessment of creditworthiness, considering both the risk to it of the customer not making the repayments, as well as the risk to the customer of not being able to make repayments. We look at:

- Whether the lender completed reasonable and proportionate checks to satisfy itself that the borrower would be able to repay any credit in a sustainable way?
- If reasonable and proportionate checks were completed, did the lender make a fair lending decision made bearing in mind the information gathered and what the lender knew about the borrower's circumstances?
- And a reasonable and proportionate check would usually need to be *more* thorough:
 - the lower a customer's income, and the higher amount to be repaid.
 - the greater the number of loans and frequency of loans.
 - the longer the term of the loans

It's important to note that the checks must be proportionate to the amount being lent – so the higher the amount, the greater the checks must be, and the lower the amount, then fewer checks can be made.

So – I've looked at what happened in the light of this guidance. And – I think it's fair to say that when looking at limits of £10,000 and over – these are significant in size, and therefore the proportionate checks should be greater than for smaller amounts.

When Mr C applied for the card in August 2016 – he stated he had an annual income of £30,000. MBNA could see he had other debts of £37,074 – but also, there weren't any obvious financial problems – there weren't any defaults or late payments showing in the information they saw. So, I can't say they were wrong to issue the card – the checks were proportionate to the limit of £6,700.

I looked at the request for the first increase to £10,000 in February 2017. By then, Mr C said his salary had increased to £50,000 a year. And MBNA's information showed his debts had decreased to £3,311 – so that was a modest amount of credit. Monthly payments had been made. There was probably a case to be made that MBNA should've asked for confirmation of Mr C's salary and his other circumstances – for example, his income and expenditure. But – based on what MBNA saw, I think the increase to £10,000 was reasonable.

Looking at the final increase to £15,000 in October 2017 – this is where it's clear to me that MBNA should've carried out further checks, even though they said to us that Mr C passed their tests. By then, the increase would've meant that MBNA agreed to more than double Mr C's limit in just over 12 months – for what was then a new card holder. Significantly, MBNA could see that his debts had increased to £20,547 – this was a lot of unsecured credit. And, by the date of the increase, Mr C had requested limit increases of various amounts – six times, and all had been declined by MBNA. They didn't have any new information about Mr C's circumstances. So – it's not clear why, only a short time later after those declines, MBNA agreed to the increase to £15,000.

I also saw that there had been a late payment and an over limit charge in the time since the last increase. And – six requests for limit increases suggests that Mr C was having problems, and at least should've suggested MBNA found out more about what was going on. I think it would've been proportionate, under the circumstances to find out more about Mr C's situation – to confirm his salary (which had not been done); to find out about his income and expenditure and other debt commitments. I also noted that Mr C had taken a second balance transfer of £8,320 in February 2017 – which meant he'd transferred debt of £14,334 from other lenders in just over a year. On one hand, this may have been saving Mr C money in interest (they were on zero interest, or low interest rate offers); but on the other hand, it showed that Mr C had debts elsewhere – and MBNA might have asked questions about that. So – I agree with our investigator – MBNA should've carried out more checks before agreeing to the increase to £15,000 in October 2017.

Mr C called MBNA in May 2018 to say he was in financial difficulty, and MBNA agreed to not charge interest or fees from that time and accepted monthly payments of £70 – so that was the right thing to do. But because the payments weren't enough, MBNA defaulted the account and sold it to a debt collection agency with the balance at £14,580.

Mr C is clearly well intentioned – and has taken on two jobs to try to deal with his situation. But - he has recently showed us that his health is suffering – he has a serious illness. He's shown us evidence of this and that he's been signed off work until late December 2021. The way in which MBNA now deal with the residual debt is a decision for them – having regard to the industry guidelines for dealing with customers in financial difficulty. But also, it's clear that Mr C is now also vulnerable – given his health problems – and MBNA must take that

into account also.

My decision is that MBNA should've carried out more checks when agreeing to increase Mr C's limit to £15,000 in October 2017. And so – they should refund all interest and fees charged on any borrowing over £10,000 since October 2017 to date; and if this results in a credit balance, then pay 8% per annum simple on the payments Mr C made since the time of the payments. And – MBNA must remove any adverse information added to Mr C's credit file after October 2017. A mutually agreeable agreement should then be made for Mr C to repay any remaining debt – having regard also to his difficult personal circumstances as I've outlined.

My final decision

I uphold this complaint. And MBNA Limited must:

- Refund interest and fees on borrowing over £10,000 from October 2017 to date.
- This should be credited to the debt; and if a credit balance results, then pay 8% per annum simple on the payments from the time the payments were made.
- Agree a mutually acceptable repayment programme for the remaining debt.
- Delete adverse entries from Mr C's credit file from October 2017.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 28 December 2021.

Martin Lord
Ombudsman