

The complaint

Mrs B has complained that MBNA Limited irresponsibly lent to her.

What happened

Mrs B opened a credit card account with MBNA in November 2014. Her credit limit was initially £7,700. MBNA increased Mrs B's credit limit in February 2016 to £12,700 and increased it again at Mrs B's request in June 2017 by a further £1,000 to £13,700. A further credit limit increase by Mrs B was declined.

Mrs B says that MBNA acted irresponsibly by providing her with the credit card and when it increased her limit. She says she was struggling financially and adequate credit checks would have revealed this. She says she was only ever making minimum repayments so it should have been clear she wouldn't be able to pay her debt off in a sustainable way. MBNA says it didn't lend irresponsibly to Mrs B and that it did all the necessary checks before it lent to Mrs B – and when it increased her credit limit.

Our investigator thought that Mrs B's complaint should be upheld from the point at which her credit limit was increased to £13,700 in June 2017. They thought that there were indications in Mrs B's external borrowing which suggested the credit was not affordable. MBNA disagreed. It said it had done sufficient checks and there were no indications of any financial strain. Neither party disputed the investigator's view on the opening of the account and the first credit limit increase.

As MBNA disagreed the case has been passed to me to make a 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.

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 B's complaint.

MBNA needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs B 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 Mrs B's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

Certain factors might point to the fact that MBNA should fairly and reasonably have done more to establish that any lending was sustainable for Mrs B. These factors include things

like understanding Mrs B's income, the total amount Mrs B borrowed, and the length of time Mrs B had been indebted.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

As both parties agreed with the investigator's position on the opening of the account and the first credit limit increase I will not address these in detail here, suffice to say that I agree with the investigator's view. On the information available to MBNA, including information provided by Mrs B about her income and her household income and information obtained from external credit checks there is no reason to suggest that the lending would be unaffordable for Mrs B.

However, things were rather different in June 2017 when Mrs B asked for a further credit limit increase. The credit limit increase was small in comparison to that previously given. The credit check information available to MBNA at this time showed that in the preceding 16 months (which directly followed the increase in February 2016) Mrs B had increased her overall available credit facility by over £17,000 and had external borrowing of £18,650. Her credit limits had increased to over £42,000 and her external debt had increased by over £12,000.

MBNA says that Mrs B told it that her income had increased to around £30,000 when she made this application. It says that this means she had enough disposable income to make all her repayments comfortably.

I don't think MBNA should have relied on Mrs B's self-report given the substantial increase in her debt elsewhere and available credit. I think it would have been reasonable at this point for MBNA to ask for evidence of her income and expenditure – especially as Mrs B had proactively asked for the increase when it appeared she had available credit elsewhere.

Looking at Mrs B's bank statements from around that time it is apparent that her income was lower than that she declared. Given Mrs B's stated occupation I think it's possible she may have inflated her income in her declarations on application, because her bank statements never reflected the level of income she should have had on the salary declared and she has latterly explained that her income was actually £19,000. It is possible she included payments from her husband into their joint account for joint expenses in her declaration, but if this was the case I would have expected her to declare a much higher income. I think if MBNA had asked for evidence of Mrs B's income it would have realised that Mrs B now had significantly greater external debt than her real income could sustainably repay. I think MBNA did not act responsibly or fairly by approving the credit limit increase in June 2017 and Mrs B lost out as a result.

Putting things right

As I don't think MBNA should have increased Mrs B's credit limit from £12,700, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mrs B has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore, MBNA should:

- Rework the account removing all interest and charges that have been applied to balances above £12,700.
- If the rework results in a credit balance, this should be refunded to Mrs B along

with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement.

- Or, if after the rework the outstanding balance still exceeds £12,700, MBNA should arrange an affordable repayment plan with Mrs B for the remaining amount.
- Remove any adverse information from Mrs B's credit file where it was directly caused by the credit limit being increased in June 2017.

*HM Revenue & Customs requires MBNA to deduct tax from any award of interest. It must give Mrs B 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 tax.

My final decision

I partially uphold Mrs B's complaint and direct MBNA to put things right in the way I've described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 19 December 2022.

Sally Allbeury
Ombudsman