

The complaint

Miss H complains that MBNA Limited was irresponsible in raising the credit limit on her account.

What happened

Miss H opened a credit card account with MBNA in 2016. The opening credit limit was £3,600. She transferred balances from elsewhere, on a 0% interest promotion. In March 2017, MBNA offered to increase the credit limit to £5,200. Miss H asked for a limit of £4,100 instead and this was agreed. Shortly afterwards, Miss H asked MBNA to increase the credit limit to £6,500. MBNA didn't agree to that but increased it to £5,200.

In July 2017, Miss H exceeded the credit limit and MBNA withdrew the promotional interest rate. The following month, Miss H made a payment to the account which cleared the balance. She then stayed well within the credit limit until October 2018.

In 2019, Miss H contacted MBNA and explained that she was in financial difficulty. A payment arrangement was put in place for three months from October 2019 and this was extended by a further three months. MBNA closed the account in April 2020. I understand that Miss H continues to make payments under an arrangement.

In 2020, Miss H made a complaint to MBNA. She said it had been irresponsible in increasing her credit limit. She said that she'd been using her card for expenses such as food shopping and petrol and had only been making the minimum monthly payments. She said she was able to maintain the minimum payments while her account was on a promotional rate. But that, when the promotion expired, the minimum payments became unaffordable. MBNA said it had made checks before increasing the credit limit and hadn't seen anything to suggest the increased credit would be unaffordable for Miss H. It didn't uphold the complaint.

Miss H wasn't happy with MBNA's response and brought her complaint to this service. I issued a provisional decision on 15 March 2022. MBNA agreed with my provisional outcome and Miss H confirmed that she had nothing further to add. I'm now making a final decision on this complaint.

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.

I haven't seen anything which changes my mind about the appropriate outcome here. So I'm going to decide this complaint in the way I indicated in my provisional decision. My reasons are set out below.

There are industry rules and best practice guidelines which apply to credit limit increases for credit cards. In line with these, I'd expect MBNA to have assessed Miss H's creditworthiness and considered how her financial situation might be adversely affected before significantly increasing her credit limit. It needed to carry out checks which were proportionate to things

like the amount of credit being offered (or applied for), what it already knew about Miss H and the information she had provided about her financial situation. However, there is no set list of checks which MBNA had to do.

I'm satisfied that MBNA carried out some checks before increasing Miss H's credit limit. It says there was no adverse information on Miss H's credit file at the time of the increases and I'm satisfied that was the case. I'm also satisfied that her account was being well managed before the credit limit increases.

The increase to the credit limit started off as a proactive increase which was instigated by MBNA. So when Miss H requested a lower amount (£4,100, instead of the £5,200 being offered), it was automatically approved. But, because Miss H then requested a higher limit of £6,500 (more than had been pre-approved), MBNA says that a manual affordability assessment took place. I'm satisfied that MBNA did apply some scrutiny to Miss H's application, as it declined her request for credit of £6,500 and only agreed to lend £5,200. But I'm not persuaded that it did enough in the circumstances to reasonably conclude that increasing the credit limit would be affordable for Miss H.

MBNA says that, at the time of the increase, it carried out a credit risk and affordability assessment. It says that the amount of her outstanding balances was less than half of her borrowing limits and that she scored well on her overall level of indebtedness. It also says that she had been managing her MBNA account well. But, given the amount of Miss H's overall debt compared to her declared income, I'm not satisfied that the information available to MBNA indicated that she could manage a higher level of borrowing.

I think it's relevant that Miss H initially sought a lower credit limit than what was being offered but, the day after it was approved, requested a higher limit. I note that her declared income changed slightly from the initial application to the first credit limit increase and again from the first increase to the second increase. In light of this, and Miss H's overall indebtedness, I think MBNA should have made further checks before increasing the credit limit.

Miss H says that her pattern of spending meant that increasing the credit limit was irresponsible, as she was using the credit card to pay for monthly expenses such as food shopping and petrol. I don't think the nature of the spending on her card ought to have given MBNA cause for concern at the time. There does appear to have been some spending on groceries. But I haven't seen any evidence that the card was being used to pay priority bills at the time and I don't think there was anything in the spending pattern to suggest financial difficulty. Equally, I don't think that paying the minimum amount (or close to the minimum amount) each month necessarily indicated that further borrowing wouldn't be affordable.

But the fact that Miss H appeared to be managing her finances well and keeping on top of her debts didn't necessarily mean that further lending would be affordable or sustainable. At the time of the credit limit increase, the amount Miss H owed on other unsecured borrowing was close to the amount of her salary. That was in addition to her mortgage. Even if the existing debts appeared to be well managed, there does come a point where the level of debt can't keep being increased without consequences. I'm not satisfied that MBNA did enough at the time to ensure that further borrowing would be affordable. So I can't conclude that it made a fair lending decision when it increased the credit limit.

But I'm looking at the situation impartially and I think there are some other relevant factors here. For example, it was Miss H who requested the further credit limit increase, after a limit of £4,100 had been agreed. I note that her account was well managed and she stayed well within her credit limit from August 2017 to October 2018. It wasn't until around June 2019 that she contacted MBNA to say she was in financial difficulty. She called back in September 2019 and that's when the payment arrangement was set up. I've listened to these calls and

Miss H explained that the reason she was having difficulties was down to over-spending.

I've also thought about what Miss H says about the minimum payments becoming unaffordable after the promotional interest rate ended. But the promotional rate was withdrawn because Miss H exceeded her credit limit in July 2017. It would otherwise have remained in place for around nine more months and so Miss H could have had the benefit of it for longer if she'd remained within her limit.

Putting things right

Taking everything into account, I think MBNA should refund interest and charges applied to any balance over £4,100 from 27 March 2017 (the date the credit limit was set at £4,100). The refund should be applied to any remaining outstanding balance. But if adjusting the interest and charges results in there no longer being an outstanding balance, any surplus should be treated as an overpayment and paid to Miss H along with 8% simple interest.

I don't think MBNA needs to change the way it reported the account to the Credit Reference Agencies, as I'm satisfied that it told Miss H in the 2019 calls how her credit file would be affected and she understood this. And, taking all of the above into account, I don't think MBNA needs to pay Miss H compensation for distress and inconvenience.

My final decision

For the reasons above, I uphold this complaint. MBNA Limited should:

- refund interest and charges applied to any balance over £4,100 from 27 March 2017 onwards;
- apply the refund to any remaining outstanding balance on Miss H's account;
- if this results in there no longer being an outstanding balance, the surplus should be treated as an overpayment and paid to Miss H with simple interest at 8% a year from the date of the overpayment until the date of settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 17 May 2022.

Katy Kidd
Ombudsman