

The complaint

Mr G complains that MBNA Limited irresponsibly gave him a credit card he couldn't afford to repay.

What happened

In February 2016, Mr G applied for a credit card with MBNA. He was given an initial credit limit of £1,600. MBNA increased the limit to £2,400 in June 2016.

Mr G complained to MBNA in late 2021 to say that it should never have given him the credit card or subsequent increase. He said that had MBNA completed appropriate affordability checks it would have seen that he couldn't afford to repay the credit.

MBNA didn't uphold his complaint and said that it had completed adequate checks and those checks hadn't shown any affordability concerns.

Our investigator recommended the complaint be upheld. She said that at the time of the application Mr G already had £16,000 in available credit card limits elsewhere and had utilised over £12,000 of that already. She said that after taking into account essential living expenditure and sustainable monthly repayments towards the maximum possible credit card debt, it was clear the credit card MBNA were proposing to provide was unaffordable.

MBNA didn't agree. It said that based on what Mr G had declared on his application form, he had an income of around £1,450 per month and it assumed he was a mortgage free homeowner. It estimated his essential living costs to be around £400 per month. It said that in working out Mr G's credit commitments it calculated 3.5% of his current outstanding balance, which was around £430. It said Mr G therefore appeared to have more than enough disposable income to afford the credit card and subsequent increase.

The complaint has been passed to me for 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.

Prior to giving Mr G credit, MBNA were required to complete affordability checks to ensure the credit wasn't going to cause Mr G financial difficulty and that he would be able to afford the repay all of the proposed credit in a reasonable period of time. There isn't a set list of checks that MBNA needed to complete but it needed to ensure the checks it did were proportionate in the circumstances. What is considered proportionate will vary in each case and in deciding what was proportionate MBNA would have had to take into account things such as (but not limited to): The amount of credit, the interest rate and Mr G's specific circumstances.

MBNA says that Mr G declared an annual income of £19,000 which it calculated to be around £1,450 per month. It said that it estimated his monthly essential living expenses at

around £400 and his credit repayments at around £430. However, I don't think it was reasonable for MBNA to assume credit repayments of just £430 per month.

MBNA says that figure was calculated by taking 3.5% of Mr G's current outstanding credit card debt. It says this percentage is higher than the usual minimum repayment on a credit card. While that might be true, I don't think that adequately ensures MBNA has considered the affordability and sustainability of the new credit it was proposing to provide Mr G.

I say this because MBNA's calculations don't take into consideration that Mr G already had access to unsecured credit that was greater than his current outstanding balance. So, it was possible that even later on that day he could have been indebted by around another £3,500. MBNA needed to take into consideration everything it knew about Mr G's circumstances when assessing affordability, that included thinking about any reasonably foreseeable changes in his expenditure – such as increased indebtedness on credit MBNA knew he had access to.

But even if it was reasonable for MBNA to just take into consideration his current indebtedness on revolving credit facilities, a further problem with MBNA's calculation of 3.5% of the balance is that it doesn't in Mr G's specific circumstances demonstrate he would be repaying his credit in a reasonable period of time. This was something else MBNA needed to be mindful of when assessing affordability and sustainability.

I accept that in some circumstances 3.5% might be a reasonable calculation to apply, but here it wasn't. This is because at 3.5% of his current balance, it would have taken Mr G in the region of 21 years to pay back the borrowing (assuming his existing credit cards were at a similar interest rate to his MBNA card). I don't consider that to be a reasonable period of time for repayment of his unsecured credit commitments.

MBNA needed to consider whether Mr G could afford to pay back this new credit card and his existing credit card debt within a reasonable period of time and whether he could afford to do so sustainably. MBNA therefore ought to have considered whether Mr G could afford to spend significantly more each month than the £430 it had calculated towards existing credit commitments, and also considered what sustainable repayments towards a further debt of £1,600 would be.

This means that Mr G would have likely had to use around two thirds of his monthly income to sustainably pay back the credit card debt in a reasonable period of time. Taking into account what I've seen of his circumstances (and what I think reasonable enquiries at the time by MBNA ought to have uncovered), I don't consider that would have left him with sufficient disposable income to cover his essential living costs and/or to cover any unexpected emergency costs that may have arisen. For this reason, I think MBNA acted unfairly in giving Mr G the credit card and subsequent limit increase.

To put things right, I don't think it's fair that Mr G should have to pay any interest and charges on the amounts he borrowed. However, as he has had the benefit of the money he spent on the credit card, he should pay that back. MBNA should therefore re-work the credit card account to remove any interest, fees and charges it has added. Once the capital has been repaid, MBNA should also remove any adverse information it has recorded on his credit file in relation to this account.

My final decision

For the reasons given above, I uphold this complaint and direct MBNA Limited to:

- Re-work the credit card to remove all interest, fees, charges and insurances (not

already refunded).

- If after the re-work Mr G has paid back more than he borrowed, MBNA should refund any overpayments to Mr G, adding 8% simple interest on any refunds from the date of each overpayment to the date of settlement. It should also remove any adverse information recorded on Mr G's credit file.
- If after the re-work there is still a balance outstanding, MBNA should arrange an affordable repayment plan for the outstanding amount. Once the capital amount borrowed has been repaid, MBNA should remove any adverse information from Mr G's credit file.

If MBNA considers tax should be deducted from the interest element of my award it should provide Mr G with a certificate showing how much it has taken off, so he can reclaim that amount, if he is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 27 October 2022.

Tero Hiltunen
Ombudsman