

The complaint

Mr R complains that MBNA Limited lent irresponsibly when it approved a credit card application and later increased the credit limit.

What happened

In January 2018 Mr R applied for a credit card with MBNA. In Mr R's application he said he was earning £20,000 a year but gave no living costs. MBNA completed a credit check and found Mr R had around £5,200 of unsecured credit that was well maintained, without arrears. No adverse credit was found on Mr R's credit file.

MBNA says it applied its lending criteria to the information provided by Mr R in his application and the details found on his credit file and approved it with a limit of £3,000.

Mr R used the credit card for spending and a balance transfer. The payments were maintained and in October 2019 MBNA increased the credit limit to £5,400. MBNA says the credit limit increase was approved in line with its lending criteria. Mr R continued to make the minimum payment each month and in October 2021 MBNA withdrew the spending facility on his credit card as it was in a persistent debt position.

Last year Mr R complained that MBNA had lent irresponsibly when lending to him. MBNA issued a final response but didn't uphold Mr R's complaint.

An investigator at this service looked at Mr R's case and upheld it. Whilst they thought the decision to approve the original credit card application was reasonable, the investigator thought MBNA had lent irresponsibly when it increased the credit limit to £5,400 in October 2019. MBNA didn't agree and said the credit limit increase had been approved in line with its lending criteria and relevant regulations. As MBNA asked to appeal, Mr R's complaint 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

Before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, it just needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances.

Mr R's told us he was made bankrupt in 2008 and is concerned that MBNA still approved his credit card application in 2018. But information about bankruptcy is only shown on a credit

file for six years. So when Mr R applied in 2018 the information about his bankruptcy wouldn't have been visible to MBNA.

I've looked at the information MBNA used when it assessed Mr R's application in 2018. I can see that Mr R gave an income of £20,000 and said he was employed. I understand Mr R's income wasn't in line with the details provided throughout his lending relationship with MBNA. But I think it's fair to say the income figure given wasn't unusually high to the point I'd have expected MBNA to carry out further checks. MBNA's advised it used bureau data for Mr R's regular outgoings, including rent and living expenses, and approved the original credit card application in line with its lending criteria.

I've taken all the available information into account and I'm satisfied MBNA did carry out reasonable and proportionate checks when looking at Mr R's original application. I haven't been persuaded MBNA lent irresponsibly.

MBNA increased Mr R's credit limit to £5,400 in October 2019. In my view, there were signs at this point that Mr R was becoming reliant on credit to make ends meet. And I think these should've caused MBNA to carry out more comprehensive checks before deciding whether to offer borrowing. I'll explain why.

Following Mr R's original application in January 2018, he went on to secure a reasonable level of further credit with other lenders. I can see that Mr R opened three new credit cards and a hire purchase agreement in the months following the original application. In my view, the reasonably sharp increase in unsecured credit ought to have caused MBNA to consider whether increasing Mr R's borrowing by a further £2,400 was sustainable.

As I've noted above, there's no set list of checks a lender has to complete. One option MBNA had was to review Mr R's circumstances by looking at his bank statements. I've looked at the statements in the months before the credit limit increase was approved. The bank statements don't show a regular income, in line with the details recorded in Mr R's application. In addition, the statements show a high level of outgoings to service unsecured debt without any clear surplus income to support further borrowing. In short, I'm satisfied that if MBNA had completed better checks it would've found Mr R wasn't in a position to sustainably repay further credit and decided not to proceed with the credit limit increase in October 2019. In my view, MBNA lent irresponsibly when it approved the credit limit increase to £5,400.

As I'm satisfied MBNA lent irresponsibly, I'm upholding Mr R's complaint on that basis.

My final decision

My decision is that I uphold Mr R's complaint and direct MBNA Limited to settle as follows:

- Rework the account removing all interest, fees, charges and insurance (not already refunded) that have been applied to balances above £3,000
- If the rework results in a credit balance, this should be refunded to Mr R along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. MBNA should also remove all adverse information recorded after October 2019 regarding the account from Mr R's credit file
- Or, if after the rework the outstanding balance still exceeds £3,000, MBNA should arrange an affordable repayment plan with Mr R for the remaining amount. Once Mr R has cleared the outstanding balance, any adverse information recorded after October 2019 in relation to the account should be removed from his credit file

*HM Revenue & Customs requires MBNA to deduct tax from any award of interest. It must give Mr R a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 28 June 2023.

Marco Manente
Ombudsman