

The complaint

Mrs C complains that MBNA Limited reduced the credit limit on her credit card without any warning, leaving her financially disadvantaged. And she complains that MBNA encouraged her to make an application for an increase, which it then declined to the detriment of her credit rating. Mrs C would like her credit limit restored and compensation for her distress.

What happened

In February 2023 Mrs C was surprised to receive a message from MBNA informing her it had lowered the credit limit on her credit card from £15,750 to £10,900, *'to help prevent my balance increasing too much'*. Mrs C said she wasn't aware of any irregularities and MBNA's agent couldn't explain, so she complained. She said the agent suggested that a complaint might mean MBNA not raising her limit in future and offered £35 to withdraw the complaint.

Mrs C said MBNA's decision meant she had no reserve on either of her credit cards. MBNA called Mrs C and said the new credit limit was due to her being in 'persistent debt' and that MBNA had informed her about this on many occasions. Mrs C said this was incorrect and was unfamiliar with the term. She said she had always made repayments to MBNA.

Mrs C said MBNA's agent recommended she request an increased credit limit, but this was unsuccessful, and she thought this would involve a negative credit report. MBNA declined Mrs C's complaint in March 2023, saying *'Your credit limit has been reduced because your account is in persistent debt. We wrote to you on 15 February to advise you of this decision and explain why'*. Mrs C was dissatisfied with this and referred her complaint to our service.

Mrs C said she had an incident flagged on her credit report for a missed utility payment, and her credit limit was reduced, but was told she could apply for an increase in three months. And in October 2022, MBNA told her she had exceeded her credit limit. Mrs C said she dealt with these issues to MBNA's satisfaction as confirmed in a call in November 2022. Mrs C said she increased her monthly repayments and her balance decreased from £14,580 in January 2022, to £10,193 in January 2023, with minimal spend on the card. She said her credit score had gone up by 8 points in February 2023, near to an 'excellent' score.

Mrs C referred her complaint to our service. Our investigator didn't recommend it be upheld. He said MBNA could reduce her credit limit under the terms of the agreement and explained this with reference to her being in 'persistent debt'. He said MBNA wasn't required to provide more detailed information as this is commercially sensitive. He said lenders must lend responsibly, in line with their own risk appetite and we can't set their lending criteria for them. Mrs C disagreed and was unhappy MBNA had labelled her as being in persistent debt and that she was never informed of this prior to calling MBNA on 28 February 2023. She provided statements and a spreadsheet of payments to the account.

Another investigator considered Mrs C's complaint and referred to her credit card statements from January 2018 and MBNA information to check whether or not she should have been considered to have been in persistent debt 18 months prior to MBNA stating this.

The investigator provided the definition of persistent debt from the National Debtline:

'If you have received a letter from your lender saying that you are in persistent debt, this means that in the last 18 months the amount you have paid in interest, fees and charges is bigger than the amount of borrowed money that you have paid back. This is more likely to happen if you are only paying the minimum payment, or not much more than this.'

It can be worrying when a lender contacts you out of the blue, but being in persistent debt doesn't mean that you have done anything wrong. Since September 2018, the Financial Conduct Authority (FCA) has told lenders that they have to contact customers who are in persistent debt. The rules only applied to credit cards at first, but now apply to store cards and catalogues too. Some lenders may have chosen to send persistent debt letters before this, but could only start doing this in March 2018.'

The investigator said that paying the minimum amount of the debt meant most of this would be towards interest and not the balance owed. And after 18 months the account will be highlighted as being in persistent debt as this will generally mean the customer won't be able to repay the balance in full within a reasonable amount of time. He said lenders explain this to customers and confirm what amount should be paid each month to ensure they come out of persistent debt as soon as possible. This amount is called a 'recommended payment amount' (RPA) – which is generally higher than the minimum amount shown on each month's statement.

The investigator said MBNA wrote to Mrs C in August 2019 about her being in persistent debt and followed this with many other letters and statements. He set out the dates of these in his letter to Mrs C of 10 August 2023 and so I won't repeat that here. He also detailed a payment holiday requested by Mrs C that was extended and the amendment of her direct debit following three missed RPAs in 12 months when MBNA put a block on the card. Mrs C disputed that she had missed a payment, but the investigator quoted from MBNA's letter detailing a missed payment and stating it would stop her card if she missed the next one.

To remove the block that MBNA applied, Mrs C had called MBNA and confirmed she had received notification of being in persistent debt. The investigator spoke to Mrs C, and said she agreed that she understood that persistent debt was mentioned on her statements, but she hadn't noticed this sooner and had ignored some of MBNA's letters.

The investigator reviewed the spreadsheet Mrs C provided and produced a table to show the interest charged and capital paid by each payment made to the account. He concluded that her account was in persistent debt. And that MBNA treated Mrs C fairly in identifying and supporting her to make increased payments under the persistent debt process.

Mrs C remained in disagreement and requested an ombudsman review her complaint. She said no mention had been made of her later repayments where she had reduced her balance. Contrary to the investigator's view, Mrs C said no justification was provided about her being in persistent debt or an RPA and she didn't recall requesting a payment holiday.

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.

Mrs C says MBNA's decision to reduce her credit limit holds a significant negative impact on her finances as it has removed her credit facility. And by recommending her to make another request for credit and subsequently rejecting it, the bank has left her with a negative mark on her credit report.

Mrs C had a credit card with a limit of £15,750 which was reduced to £10,900 in February 2023. MBNA told Mrs C this was because she was in persistent debt. She was told she needed to wait 12 months before applying for an increase, as MBNA would likely decline.

Mrs C has rebutted almost every point MBNA and the investigator have made about her account. In particular, she disputes that she was in persistent debt, was told about this or that she missed any payments or requested a payment holiday. The heart of the complaint I take to be whether or not it was reasonable for MBNA to consider Mrs C to be in persistent debt, and whether it informed her of this so that an alternative course of action was available to her. From examining MBNA's records there is plenty of evidence that it considered Mrs C to be in persistent debt, and that she was informed of this by MBNA on many occasions.

It is worth noting that the identification and handling of persistent debt by lenders means that measures required by a lender's process will still be applied even where more than the minimum payments have been made. Over the last few years lenders have been increasingly required by regulators to prevent customers from taking on unaffordable debt. It follows that lenders are required to review their customers' borrowing and offer some protection.

MBNA's review and approach to Mrs C's account was to see how much was being paid towards the balance, against how long it would take to clear the balance, and whether this can be achieved within a reasonable amount of time.

The account evidence from Mrs C and MBNA shows that while Mrs C made additional payments in some months, she was mainly paying the minimum amount, leading MBNA to conclude, she was paying more in interest and charges than the actual balance owed. This means she wasn't able to pay the balance in a reasonable time if her payments continued at that rate. Even if Mrs C had made all of the RPA payments, MBNA estimated it would take four years for her to clear her debt, but at least the RPA offered the prospect of debt clearance, as opposed to the uncertainty of the minimum repayments.

MBNA's persistent debt process is intended to ensure that customers aren't left paying mostly interest on the balance owed (meaning MBNA makes money every month) for a very long period of time and would mean that Mrs C would likely struggle to clear or reduce the balance for several years.

And so though I sympathise with the points about her payments that Mrs C has made, I think it was correct for MBNA to consider her to be in persistent debt. I think MBNA has acted appropriately in restricting Mrs C's debt and I don't agree that it has made her financial situation worse. I'm also satisfied MBNA acted in accordance with the terms and conditions of the account, when reducing Mrs C's credit limit and has treated her fairly. I agree with the investigator that the actions taken by MBNA are from a position of good conduct towards Mrs C and similarly affected customers.

Mrs C said MBNA hadn't told her it considered that she has been in '*persistent debt*' for a while. I've seen letters from MBNA to Mrs C's home address. These state, '*As you've been in persistent debt for quite a long time, we've been giving you a RPA in your statements to help you repay this balance in around four years*'.

I think the record of MBNA's correspondence and account statements to Mrs C show that she was fully informed that her account was considered to be in persistent debt from 2017 onwards. And she was informed that she needed to take action about this. Mrs C has reduced the balance, but not by enough for MBNA to remove the persistent debt status from her account, as demonstrated by its letters about this.

I can understand that Mrs C had other concerns during this period, and she disputes that she missed payments, but she didn't do anything about the RPA perhaps because it was just a recommended amount. I think Mrs C needed to follow the RPA in order for her to demonstrate that she understood the concern about her debt status and to try to remove herself from being considered in this way.

In my view, MBNA has acted fairly and as a responsible lender to inform Mrs C that if she continued to only make minimum payments, she wouldn't be able to pay off the card balance in a reasonable amount of time. By reducing the total amount of credit available MBNA acted in line with the persistent debt process as per the terms and conditions of the account.

Mrs C said, *'MBNA recommended I make a new request and then declined it, which means that all new lenders will consider this when deciding whether to lend.'* And *'MBNA made it clear to me on 20 February (after I refused to accept £35 in exchange for not making a complaint) that if I was going ahead with a complaint, it would likely never reinstate my available credit again'.*

MBNA said Mrs C hasn't made any new credit card applications so there haven't been any declines. It holds a record of her call on 27 February 2023 when she requested an increased credit limit, which it declined. From the record, Mrs C agreed to a credit search, and this will have been recorded as only a search. MBNA doesn't have a record of any calls with Mrs C on 20 February 2023 and so I haven't found anything to suggest that it tried to prevent Mrs C's complaint.

It is open to Mrs C to bring a separate complaint to MBNA about the payment holiday that she disputes and the implications of this for her credit rating.

My final decision

For the reasons I have given it is my final decision that the complaint is not upheld.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 11 December 2023.

Andrew Fraser
Ombudsman