

The complaint

Mr H complains that the credit card he had from MBNA Limited was unaffordable to him.

What happened

Mr H was approved for a credit card with MBNA in April 2022. The credit limit was increased as follows:

| <u>Date</u> | <u>Credit Limit</u> |
|-------------|---------------------|
| 4 Apr 2022 | £7,200 |
| 27 Dec 2022 | £12,200 |

Mr H says MBNA failed to carry out reasonable affordability assessments before it approved the initial lending and before it increased the credit limit. He says he had a very poor credit rating at the time and several other unsecured debts. Mr H adds that his mental health suffered as a result of struggling to meet the minimum repayments and he had to borrow elsewhere to maintain them.

MBNA says it asked Mr H about his income and housing costs and used data from the Office of National Statistics (ONS) to estimate his other expenditure. Combined with information it received from its credit checks, it found the initial lending, and the subsequent credit limit increase, were sustainably affordable to Mr H. It says there was nothing about the way in which Mr H managed his account that gave it cause for concern and he'd utilised the 0% offer for balance transfers.

Our investigator recommended the complaint should be upheld. She was not satisfied that MBNA had carried out proportionate checks and found that better checks would have shown Mr H was unlikely to be able to sustainably afford the repayments on the credit card.

MBNA responded to say, in summary, that it could not agree that there was evidence Mr H was heavily reliant on credit and his credit file showed no late payments and no indication of financial difficulties. It said a review of his bank statements showed over £800 of disposable income and Mr H used the new credit card for balance transfers that should have reduced his monthly outgoings.

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 need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr H's case, I have considered the following:

- Did MBNA complete reasonable and proportionate checks when assessing Mr H's application and credit limit to satisfy itself that he could sustainably repay the credit?
 - If not, what would reasonable and proportionate checks have shown?
- Did MBNA make a fair lending decision?
- Did MBNA act unfairly or unreasonably in some other way?

Initial Application

When Mr H applied for the credit card, I've seen evidence to show MBNA checked his credit file and asked him about his income and housing costs. These checks showed:

- Mr H was married with one child;
- He was a homeowner with a mortgage;
- A declared income of £38,000 per year;
- Housing costs at £165 per month;
- Other commitments of £165 per month;
- No adverse information on his credit file.

I acknowledge that MBNA says it used ONS data to estimate Mr H's other expenditure, but, as a credit card is a long-term, open-ended commitment, I consider it should have ensured it fully understood Mr H's financial circumstances before it approved a relatively high limit.

So, I've had a look at Mr H's bank statements from the time, and a recent credit report, as a reasonable proxy for what proportionate checks are likely to have shown MBNA:

- Mr H's income was about £2,500 per month – in line with the £38,000 gross income he'd declared to MBNA;
- His mortgage was £330 monthly;
- Other loans, including car finance, cost Mr H about £500 per month;
- Credit card repayments were about £300 per month;
- Television and mobile phone costs totalled around £300 per month;
- Insurances, car tax and bank charges came to £270 each month;
- Expenditure on groceries, excluding takeaways and eating out, was over £200;
- Mr H spent about £140 per month on petrol;
- Around £130 was withdrawn in cash monthly.

Based on the above, I'm not satisfied that the new card with a credit limit of £7,200 was sustainably affordable for Mr H. I say that because:

- Based on the above analysis, Mr H had monthly disposable income of just over £300;
- This was unlikely to have been sufficient to cover the minimum payment on £7,200, let alone unforeseen expenditure, even taking into account any balance transfers;
- Mr H was already committed to spending about 32% of his income on credit repayments - with the new credit card this figure went up to over 45%;

- Two weeks before his MBNA application, Mr H was approved for a further credit card with a £3,000 limit – repayments on this were not included above as I consider it unlikely it would have been on Mr H's credit file when MBNA carried out its checks.

In summary, I do not consider MBNA carried out proportionate checks before approving the credit card and I find that, had it done so, it was likely to have found that Mr H did not have the level of disposable income required to sustainably afford the repayments on the card.

I acknowledge that MBNA says, in response, that Mr H was only utilising 56% of his available credit, however, that was based on a credit report dated December 2023. In reality, Mr H appeared to be making consistent repayments via direct debit to five active credit cards which seemed to be the minimum payments in each case.

Finally, I accept that Mr H did not notify MBNA of any mental health issues, so, although I find it was irresponsible to have approved the credit card, I can't see MBNA acted unfairly or unreasonably in any other way.

My final decision

My decision is that I uphold this complaint. MBNA Limited should:

- Rework the account removing all interest and charges that have been applied.
 - If the rework results in a credit balance, this should be refunded to Mr H 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 regarding this account from Mr H's credit file.
 - Or, if after the rework there is still an outstanding balance, MBNA should arrange an affordable repayment plan with Mr H for the remaining amount. Once Mr H has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires MBNA to deduct tax from any interest. It must give Mr H a certificate showing how much tax has been taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 18 April 2024.

Amanda Williams
Ombudsman