

## The complaint

Miss F is complaining about American Express Services Europe Limited because she says it lent irresponsibly when increasing the limit on her credit card.

## What happened

Miss F has had a credit card with American Express since 2016. By July 2018, the credit limit had increased to £2,500. American Express then increased the limit further, to £4,500 in July 2018, £8,500 in February 2019, £14,500 in July 2019 and £17,500 in February 2020. It's the increases starting in July 2018 that Miss F says were unaffordable and shouldn't have been offered. American Express has confirmed it applied the limit increases based on its assessment of Miss F's situation and that she didn't ask for them.

After the complaint was referred to me, I issued my provisional decision setting out the reasons I proposed to uphold the complaint and what American Express should do to put things right. My reasons for finding in Miss F's favour were as follows:

*Before increasing the credit limit on Miss F's card, American Express was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider in respect of each lending decision are:*

- *Did American Express complete reasonable and proportionate checks to establish that Miss F would be able to repay the credit in a sustainable way?*
- *If so, was the decision to lend fair and reasonable?*
- *If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?*

*The rules, regulations and good industry practice in place at the time the additional credit was approved required American Express to carry out a proportionate and borrower-focused assessment of whether Miss F could afford the repayments. This assessment also had to consider whether the credit could be repaid sustainably. In practice this meant American Express had to satisfy itself that making payments to the credit wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of her making payments, it had to consider the impact of the repayments on Miss F.*

*The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.*

*American Express has described the information it gathered to assess whether the additional credit being offered to Miss F was affordable before it was approved. This included:*

- her income, which wasn't verified but it instead relied on information obtained from a credit reference agency (CRA);*
- other information from a CRA, including details of her existing credit commitments; and*
- the conduct of her American Express account.*

*American Express maintains its checks demonstrated the additional credit offered was affordable and in line with its lending policy.*

*When considering this case, my first observation is that American Express increased the limit on Miss F's card by a huge amount in a very short period of time. In the space of just 18 months, the credit available to her increased from £2,500 to £17,500. In this context, I would have expected American Express's affordability assessment to be considerably more thorough than the checks it carried out when the card was originally offered with a relatively low limit for example.*

*Increasing the limit to £4,500 in July 2018*

*Unfortunately, American Express hasn't provided much evidence to substantiate the nature of its affordability checks and the summary of the information obtained from the CRA is very limited indeed. In the absence of this information, I've relied on the detailed credit report supplied by Miss F to review the information it would likely have seen about her account with American Express and her other creditors.*

*After reviewing this information carefully, and irrespective of whether or not I accept that the checks carried out were proportionate, I think there were factors that should have prompted American Express to decide against increasing the credit limit available to Miss F at this time:*

- She already had extensive credit card debt of nearly £19,000 spread across six existing cards and loans worth nearly £4,000. This was a large proportion of her total income, that American Express believed to be around £38,000 (a figure substantiated by her bank statements. In addition to this debt, Miss F was part of a joint mortgage owing just short of £300,000. So, she was already heavily indebted.*
- She was very close to the limit on most of her existing credit cards and her total credit card utilisation was around 83% of the total of the credit limits.*
- She'd only just taken out taken a new credit card in June 2018 with a limit of £6,300 and had already maxed it out, increasing her overall level of debt significantly.*
- She missed a payment on another credit card in February 2018, only a short time before this increase was offered.*
- She'd exceeded the credit limit on her American Express card in three of the previous six months.*

*A £2,000 increase to Miss F's credit limit was substantial. Against this background, that I believe showed signs her finances could be under strain, I don't think American Express should have offered to increase the limit by this amount at this time.*

#### *Subsequent limit increases*

*After reviewing the evidence provided, I don't believe Miss F's circumstances had improved significantly by the time the later limit increases were applied and statements show her income remained much the same prior to February and July 2019 and had actually fallen by February 2020.*

*By the time the limit was increased to £8,500 in February 2019, Miss F's credit card debt had reduced to around £9,300. But this appears to have been because she borrowed further money from her mortgage lender that increased that monthly payment by around £300, and I don't think this justified the decision to increase the limit significantly again.*

*By the time the limit was increased to £14,500 in July 2019, Miss F's credit card debt had increased significantly again to over £15,000 and she'd also taken on a new loan for nearly £5,000. So, her overall level of non-mortgage debt was broadly back up to where it had been in July 2018 and I think it follows that it wasn't reasonable to increase the card limit by a further £6,000 at this time.*

*By the time the limit was increased to £17,500 in February 2020, Miss F had taken out two more credit cards, meaning she had eight separate accounts with a total balance of more than £32,000. She'd also taken out a new loan for over £9,000. This means her total debt was approximately £48,000 and considerably more than her total net income. Again, in these circumstances, I don't think American Express acted reasonably by offering to increase the card limit again.*

#### *In summary*

*Based on the information American Express would have obtained from the CRA about Miss F's existing commitments and what it knew about how she'd managed her American Express account, I think it should have concluded it wasn't appropriate to increase the credit limit on her card in July 2018 or subsequently and that it should have remained at the amount of £2,500 agreed previously. It's for this reason that that I'm upholding this complaint.*

Miss F and American Express both accepted my provisional decision without further comment.

#### **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.

As neither party has made any further submissions in response to my provisional decision, my findings haven't changed from those I set out previously.

#### **Putting things right**

The principal aim of any award I make must be to return Miss F to the position she'd now be in but for the errors or inappropriate actions of American Express. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think American Express should have increased the card limit in July 2018 or later on, I don't think it's fair for Miss F to pay interest or charges on the higher amounts borrowed. But she has had use of the money that was lent, so I think it's fair she repays the amount borrowed (without the addition of interest or charges).

To put things right, American Express now needs to take the following steps:

- Rework the account to remove all interest, fees, charges and insurances (not already refunded) that have been applied since the limit increase in July 2018 on balances over £2,500.
- If the reworking results in a credit balance, this should be paid to Miss F with the addition of simple interest at 8% per year from the date of each overpayment to the date of settlement.

HM Revenue & Customs (HMRC) requires American Express to deduct tax from any interest. It must provide Miss F with a certificate showing how much tax has been deducted if she asks for one. If American Express intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

- Or, if after the reworking there's still an outstanding balance in excess of £2,500, American Express should arrange an affordable payment plan with Miss F for the shortfall.
- Remove any adverse information recorded on Miss F's credit file after July 2018 relating to this credit, once any outstanding balance over £2,500 has been repaid.

If American Express no longer owns the debt, it should liaise with whoever does to ensure any payments Miss F has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

I'm satisfied this represents a fair and reasonable settlement to this complaint.

### **My final decision**

For the reasons I've explained, I'm upholding Miss F's complaint. Subject to her acceptance, American Express Services Europe Limited should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 23 May 2024.

James Biles  
**Ombudsman**