

The complaint

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

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

In November 2019 Mr A applied for a credit card with a balance transfer promotion with MBNA. In his application, Mr A said he was employed with an income of £38,000 a year. Mr A also advised he was a homeowner with a mortgage of £475 a month. MBNA carried out a credit search and found Mr A had existing commitments of around £364 a month. MBNA applied essential living costs of £394 and £50 of other commitments Mr A declared in the application. MBNA says this showed Mr A had a disposable income of around £1,164 a month after his regular outgoings were paid.

MBNA approved Mr A's application and sent him a credit card with a £7,600 limit. Mr A went on to use the promotional interest rates available to complete balance transfers.

In September 2021, MBNA approved a credit limit increase to £12,600. MBNA says it checked Mr A's commitments and account management before taking the step of increasing his credit limit. Mr A went on to use the additional credit limit to complete some balance transfers. There was also retail spending.

Last year, Mr A complained that MBNA had lent irresponsibly and it sent him a final response. MBNA didn't agree and said it had carried out the relevant checks before deciding to lend.

An investigator at this service upheld Mr A's complaint and pointed out he'd taken a new loan for £12,500 in August 2019 which should've put MBNA on notice he may've been overcommitted already. It was noted that Mr A had been using his overdraft in the months before his credit card application was made and the investigator felt his committed outgoings exceeded his income.

The investigator felt that carrying out a more thorough review of Mr A's circumstances, like reviewing his bank statements, would've found his outgoings were significantly higher than noted by MBNA in the application and led it to decline it. The investigator also upheld the complaint about MBNA's decision to increase Mr A's credit limit.

MBNA asked to appeal and said that the level and nature of information obtained during the application was proportionate to the credit card it approved as well as the credit limit increase. MBNA looked at Mr A's bank statements for the period before he applied for the credit card but felt they showed he was in a position to sustainably meet repayments and didn't agree it had lent irresponsibly. As MBNA asked to appeal, Mr A's complaint has been passed to me to make a decision.

What I've provisionally 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.

Before agreeing to lend or increasing the credit limit, the rules say MBNA had to complete reasonable and proportionate checks to ensure Mr A could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;*
- The total sum repayable and the size of regular repayments;*
- The duration of the agreement;*
- The costs of the credit; and*
- The consumer's individual circumstances.*

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I'm sorry to disappoint Mr A but I haven't been persuaded that the information I've seen so far shows MBNA lent irresponsibly. I'll explain why.

When Mr A applied to MBNA he provided information about his circumstances and income. Mr A confirmed he was earning £38,000 and had a mortgage of £475 a month. I can see that MBNA carried out a credit search and it took the existing repayments found into account. MBNA applied its lending criteria to the application and found Mr A had sufficient disposable income to maintain repayments for a credit card with a limit of £7,600. I haven't seen anything in the application data that would've indicated to MBNA that Mr A was struggling.

I understand Mr A took out a new loan of £12,500 in August 2019, around three months before he applied to MBNA. But I think it's fair to say we know Mr A used the majority this loan to repay existing credit commitments. So I'm satisfied MBNA would've seen that whilst Mr A took out a new loan of £12,500, he made repayments to other creditors of over £10,000 in the weeks that followed. I haven't been persuaded that the loan, in itself, was sufficient to cause MBNA to take a different approach.

Our investigator thought Mr A's overdraft use should've also highlighted that he was struggling. But MBNA hadn't viewed Mr A's statements and would've relied on the details reported on his credit file. Whilst we don't have the specific figures that MBNA found, I have copies of Mr A's bank statements. They show he was overdrawn at times in the three months before his application was made, but I'm satisfied his account was also in credit for large periods at this time as well.

In my view, MBNA carried out reasonable and proportionate checks before approving Mr A's application and initial credit limit. I haven't been persuaded it needed to do more or lent irresponsibly.

With that said, our investigator reviewed Mr A's bank statements and felt they showed he was overcommitted. I've reached a different conclusion. Mr A's regular outgoings for direct debits relating to his commitments and bills averaged around £1,200 in the three months before he applied for the credit card. Mr A's net income averaged £2,563 each month. That

meant after paying his priority bills and commitments Mr A was left with around £1,350 to cover everyday essential spending. In my view the statements show Mr A did have capacity to make repayments to MBNA for a credit card. I haven't been persuaded Mr A's statements show MBNA lent irresponsibly.

I've gone on to look at MBNA's decision to increase Mr A's credit limit to £12,600 in September 2021. By this point, Mr A's account had been open for almost two years. And the decision to approve a further £5,000 borrowing was significant. At this stage in the lending relationship, I think it would've been reasonable for MBNA to carry out a comprehensive assessment of Mr A's circumstances before deciding to proceed with the credit limit increase. As noted above, there's a range of options to lenders, one of which is reviewing bank statements. I've looked at Mr A's bank statements to get a picture of what MBNA would've found.

In the three months before Mr A's credit limit was increased his outgoings for bills and direct debits came to an average of around £1,625. By this point, however, Mr A's bank statements show he was no longer receiving salary credits into the current account. Funds were added by transfer each month by Mr A from another bank account. In June 2021, Mr A transferred £2,950 into his bank account, in July 2021 £3,500 was transferred and in August 2021 £2,500 was received. Whilst those figures did vary, I think they showed Mr A was managing his current account and existing commitments without any signs of financial difficulty. I can see Mr A was using his overdraft more consistently but I haven't been persuaded that his account statements show Mr A was experiencing financial difficulties or overcommitted.

I'm sorry to disappoint Mr A but, based on the information I've seen so far, I haven't been persuaded that MBNA lent irresponsibly. As a result, I don't intend to uphold Mr A's complaint.

I invited both parties to respond with any additional comments or information they wanted me to consider before I made my final decision. Mr A's representatives acknowledged receipt of the provisional decision but no new information was supplied. MBNA didn't respond with 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 provided new information for me to consider, I see no reason to change the conclusions I reached in my provisional decision. I remain of the view that MBNA carried out reasonable and proportionate checks before agreeing to lend and that it dealt with Mr A's case fairly, for the same reasons.

My final decision

My decision is that I don't uphold Mr A's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 14 June 2024.

Marco Manente
Ombudsman