

Complaint

Mr L has complained about a credit card and subsequent credit limit increases that MBNA Limited ("MBNA") provided to him.

He says his financial situation was not considered adequately and this resulted in him being issued with a credit card and a limit increase which he couldn't afford.

Background

MBNA provided Mr L with a credit card with an initial limit of £2,300.00 in February 2018. The credit limit on Mr L's credit card was then subsequently increased to £4,000.00 in September 2018.

One of our investigators reviewed what Mr L and MBNA had told us. And he thought MBNA hadn't treated him unfairly when initially offering Mr L his credit card or subsequently increasing his credit limit. So he didn't think that MBNA had done anything wrong or that it needed to pay any compensation.

Mr L disagreed and asked for an ombudsman to look at the complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr L's complaint.

Having carefully considered everything, I'm not upholding Mr L's complaint. I'll explain the reasons for my decision in a bit more detail.

MBNA needed to make sure it didn't lend irresponsibly. In practice, what this means is MBNA needed to carry out proportionate checks to be able to understand whether Mr L could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

MBNA says it agreed to provide Mr L with a credit card after it carried out a credit search and obtained some information on his income and expenditure. The information obtained

suggested that Mr L had some existing debts but these were well managed and reasonable in comparison to his income. In MBNA's view, the information obtained indicated that Mr L would be able to make the monthly repayments due for this credit card.

On the other hand Mr L says that this credit card shouldn't have been provided to him.

I've considered what the parties have said.

What's important to note is that Mr L was provided with a revolving credit facility rather than a loan. And this means that MBNA was required to understand whether credit limits of £2,300.00 and £4,000.00 could be repaid within a reasonable period of time, rather than all in one go.

Credit limits of £2,300.00 and £4,000.00 weren't small nonetheless they didn't require huge monthly payments in order to clear the full amount owed within a reasonable period of time. I say this particularly as Mr L was being provided with a credit card which had a promotional interest rate and this still applied at the time of the limit increase. This meant that all of Mr L's payments would go to reducing what he owed.

MBNA's credit check did indicate that Mr L did have some existing debts. But it's fair to say that these were being well relative managed. For example, there was no significant adverse information such as defaulted accounts, county court judgements or insolvencies recorded against Mr L. Indeed the information MBNA relied on suggests that Mr L total unsecured debts of around wasn't unreasonable compared to his declared income at the time.

I also say this while mindful that Mr L had a 0% interest balance transfer option on this card and transferring some of his existing debt, to a much lower interest rate, on to this account is likely to have improved his financial position. I'll return to the significance of this further on in this decision.

Given the amount of the likely monthly payments, Mr L's existing debts and the total amount of funds he's likely to have been in receipt of, at the time of the card being provided and the limit increase, there is a reasonable argument to say that MBNA's checks did go far enough in this instance.

Indeed as Mr L was transferring an existing credit card balances on to this account at 0% interest, he was likely to be paying less interest than he would have done had the balance stayed where it was. And he was therefore able to make larger inroads into his balances.

So while Mr L says that MBNA should have stopped adding interest rather than increased his credit limit in September 2018, there was actually very little interest to freeze at this stage. Furthermore, I wouldn't have expected Mr L to have cleared his balance by the time the limit increase was offered as he was only six month into an 18 month promotional period too. As this is the case, I wouldn't have expected MBNA to have considered that Mr L having not cleared his existing balance meant that he might have been experiencing difficulty.

In any event, even if more needed to be done here, at the absolute most it could be argued that MBNA needed to obtain information on Mr L's actual living costs at the time of the initial application and the limit increase. But I don't think that MBNA would have made a different decision even if it had asked Mr L for such information.

I say this because I've not seen anything that shows me that when Mr L's committed non-discretionary regular living expenses and existing credit commitments were deducted from what he received, he did not have the funds to make a sustainable repayment for this credit card.

So, in these circumstances, it's difficult for me to conclude that MBNA wouldn't have lent even if it had tried to find out more about Mr L's regular living costs at this time. Indeed at the time of the limit increase Mr L's current account balance had sufficient funds to completely clear his credit card in full. I know that Mr L says that these funds were earmarked for another purpose. But it's difficult for me to accept that he would have notified MBNA of this in circumstances where he was requesting a £4,000.00 credit limit after he was initially offered an increase that was lower than this.

I accept that Mr L's actual circumstances at the time were worse than what the information about his living costs shows. I know that Mr L has referred to his gambling and has provided other statements showing this. I also accept that if MBNA had known about this as Mr L appears to be saying it should have it's possible, but by no means certain, that it may have reached a different decision on providing the credit card and limit increase.

But the truth is, given the circumstances here and what MBNA needed to find out, I don't think that reasonable and proportionate checks would have extended into obtaining bank statements for all of Mr L's accounts – especially as bank statements weren't the only way that MBNA could find out about Mr L's living expenses in the first place. And they certainly wouldn't have gone into the level of granularity required to discover that Mr L may have had difficulties with gambling.

In my view, delving into the detail of Mr L's statements in this way isn't commensurate with a proportionate check. And most crucially I'm satisfied that MBNA taking further steps to find out more about Mr L's living expenses won't have led it to determine that the repayments for this credit card were unaffordable for Mr L.

Finally, as I've explained, approving this application and limit increase led to MBNA providing Mr L with balance transfers, with a promotional 0% interest offer, on this card. And this was in circumstances where there wasn't a history of Mr L obtaining funds in this way and then breaching the terms and conditions of the agreement therefore losing the terms of the balance transfer offer either.

So I'm satisfied that MBNA was reasonably entitled to believe that approving this credit card and the limit increase could reasonably leave Mr L in a better financial position. As this is the case, I'm also satisfied that MBNA was reasonably entitled to believe that it wasn't increasing Mr L's indebtedness in a way that was unsustainable or otherwise harmful.

In reaching this conclusion I've also considered whether the lending relationship between MBNA and Mr L might have been unfair to Mr L under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think MBNA irresponsibly lent to Mr L or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here. So I'm not upholding this complaint.

I appreciate this will be very disappointing for Mr L. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or

reject my decision before 19 August 2024.

Jeshen Narayanan
Ombudsman