

The complaint

Miss S complains that MBNA Limited was irresponsible in its lending to her.

Miss S is represented by a third party but for ease of reference I have referred to Miss S throughout this decision.

What happened

Miss S was provided with a credit card by MBNA in 2017. The initial credit limit was £4,800 and this was increased to £5,300 in March 2018 and to £7,300 in January 2021. Miss S says that before the lending was provided adequate checks weren't carried out to ensure the credit was affordable. She says that the provision of this credit has made her financial situation worse.

MBNA issued a final response letter dated 12 May 2023. It said that when Miss S applied for a credit card it used the information she provided, along with anything it already knew about her, and information from the credit reference agencies in its credit scoring. It also carried out affordability checks. It said that Miss S had an annual income of £24,000 and from this it deducted her repayments for other credit and her living costs. It said that Miss S passed all of its checks which was why the credit was provided. Further checks were then carried out before the credit limit increases were applied.

MBNA noted that after receiving the credit card, Miss S carried out balance transfers which meant she had the benefit of not paying interest on the transferred amounts for a period of time. It said Miss S made regular repayments to her credit card and repaid the main balance in October 2018. It noted that it had no record of Miss S contacting it about financial difficulties until April 2023 at which point a 30-day hold was placed on her account.

MBNA didn't accept that it had lent irresponsibly.

Miss S wasn't satisfied with MBNA's response and referred her complaint to this service.

Our investigator upheld this complaint. He didn't think that the checks carried out before the credit card was provided were proportionate given Miss S's high amount of unsecured debt. He thought further checks should have been carried out to ensure MBNA had a better understanding of Miss S's circumstances before lending. Had further checks happened, our investigator thought these would have shown the lending was unaffordable for Miss S.

MBNA didn't agree with our investigator's view. It didn't accept that based on the information it received further checks were needed and it said its checks were proportionate. It said the purpose of the credit card was for a balance transfer which meant Miss S benefitted from a promotional interest rate. MBNA considered the information Miss S provided about her accounts but said this didn't show the lending to be unaffordable. It also raised concerns about certain information that had been provided.

As a resolution hasn't been agreed, this case has been passed to me, an ombudsman, to issue a decision.

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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

In this case, Miss S was provided with a credit card by MBNA with an initial credit limit of £4,800. As part of the application process Miss S was asked about her employment and income, and she stated she was employed with an annual income of £24,000. A credit check was carried out which showed she had other credit outstanding at the time consisting of a mortgage (£151,251), loan/hire purchase agreement (£33,418) and credit card debt (£1,704).

I note MBNA's comment about Miss S only utilising around 50% of her credit card limit at the time, and that she used the MBNA credit card for balance transfers. However, I cannot see that Miss S said the new credit was to be used for debt consolidation and I note that the credit limit provided by MBNA was higher than Miss S's previous credit card limit (although I also accept that she had other credit commitments). So, while I have taken the comments made by MBNA into consideration, having assessed the information gathered before the new credit was provided and noting the high amount of debt Miss S had outstanding at the time of her application (her loan/hire purchase balance was significantly higher than her annual income and she was also paying for other credit and a mortgage) I think it would have been proportionate for MBNA to have asked further questions before lending to Miss S. This was needed to ensure it had a clear understanding of Miss S's monthly income and expenses to check any additional credit would be sustainably affordable for her.

While MBNA wasn't required to request copies of Miss S's bank statements, as I think it needed to gather more information to ensure it had a clear understanding of Miss S's financial circumstances at the time of the credit card application, I have used the information contained within Miss S's bank statements as an indication of the information that would most likely have been identified had further checks taken place.

Having looked through the information provided by Miss S, I can see she was receiving a monthly income of around £1,750. Her bank statements show monthly payments for Miss S's mortgage, hire purchase/loan agreement and other credit commitments. These totalled around £1,245 a month, and this was before the MBNA credit card was provided.

Additional to Miss S's credit costs, she was paying around £105 for media/communications contracts, £139 for her utility and insurances and £67 for council tax. This would leave disposable income of just under £200. This is less than the repayments that would be due if Miss S made full use of the credit limit provided by MBNA (repayments would be around £240). Given these amounts do not include Miss S's general living costs, I find that had further checks been carried out MBNA would have released providing the credit card to Miss S with an initial credit limit of £4,800 was unaffordable.

I appreciate the comment about Miss S using the MBNA credit for balance transfers, but the promotional rates were time limited and then the additional borrowing would become subject

to interest. And, in this case, I find that had adequate checks been carried out before the MBNA credit card was provided then it would have been identified that providing this additional credit to Miss S wasn't sustainably affordable.

Putting things right

As I don't think MBNA ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Miss S should pay back the amounts she has borrowed. Therefore, MBNA should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Miss S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. MBNA Bank should also remove all adverse information regarding this account from Miss S's credit file.
- Or, if after the rework there is still an outstanding balance, MBNA should arrange an affordable repayment plan with Miss S for the remaining amount. Once Miss S has cleared the balance, any adverse information in relation to the account should be removed from Miss S's credit file.

*HM Revenue & Customs requires MBNA Bank to deduct tax from any award of interest. It must give Miss S a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

My final decision is that MBNA Limited should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 29 August 2024.

Jane Archer
Ombudsman