

The complaint

Miss B complains that MBNA Limited lent irresponsibly when it gave her a credit card in December 2019, and later increased her credit limit in November 2023.

What happened

Miss B applied, and was accepted, for a credit card with MBNA in December 2019. Her initial credit limit was set at £2,500. In November 2023 Miss B applied to increase the credit limit, and MBNA offered a new credit limit of £5,000.

Miss B complained to MBNA that its lending had been irresponsible and as a result she was now facing financial difficulties. MBNA didn't agree with the complaint. It said that it thought it had conducted appropriate checks both before the card was agreed, and before the credit limit was increased. But, as a gesture of goodwill, MBNA refunded five months' interest, and added a further three-month interest waiver, to Miss B's account to allow her time to review her financial situation. Unhappy with that response Miss B brought her complaint to us.

Miss B's complaint has been assessed by one of our investigators. He thought that the checks MBNA had done before offering the credit card had been sufficient. And he thought the results of those checks suggested Miss B would be able to afford her contractual repayments in a sustainable way. The investigator thought that MBNA should have done more checks before agreeing the credit limit increase in 2023. But he thought that the results of better checks would still have suggested that Miss B would be able to afford the higher repayments following the credit limit increase. So the investigator didn't think Miss B's complaint should be upheld.

Miss B didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Miss B's complaint.

The rules and regulations at the time MBNA gave this credit card to Miss B, and then increased the credit limit, required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so MBNA had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Miss B. In practice this meant that MBNA had to ensure that making the repayments wouldn't cause

Miss B undue difficulty or adverse consequences. In other words, it wasn't enough for MBNA to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Miss B.

Checks also had to be "proportionate" to the specific circumstances of the card application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether MBNA did what it needed to before agreeing to lend to Miss B.

MBNA gathered some information from Miss B before it first offered the credit card. It asked her for details of her income, her normal housing costs, and other major commitments. It then used some industry statistical data to estimate the remainder of Miss B's expenditure. And it checked Miss B's credit file to see how much she owed to other lenders, and how she had managed credit in the past.

I am satisfied that the checks MBNA did before offering the credit card were proportionate. And I think the results of those checks suggested that Miss B would be able to sustainably repay any credit she borrowed using the card. Her use of other credit was small, and there were no adverse indicators on the credit check results. The information Miss B provided showed that she had a surplus of income over expenditure each month. So I am satisfied that it was reasonable for MBNA to provide the card to Miss B.

Miss B operated the card without any apparent problems for almost four years. And in the months leading up to November 2023 her outstanding balance had generally been well within the credit limit that MBNA had given her. And as well as making the required contractual repayments, Miss B often repaid more each month to reduce her outstanding balance.

But the credit limit increase that Miss B requested was substantial, and could double the minimum amount she would need to repay each month. And I think that Miss B's more recent use of the card – staying well within her credit limit – might have caused MBNA to have some concerns about why such a substantial increase in the limit was being requested.

It seems that MBNA undertook similar checks in 2023 to those it did in 2019. But the results of the checks showed some deterioration in Miss B's finances. Her outstanding credit

commitments had increased sharply, although it does seem that Miss B continued to manage those commitments in line with her contractual obligations. So, on balance I don't think the checks MBNA did were sufficient.

But although I don't think the checks MBNA did before increasing the credit limit were sufficient, that in itself doesn't mean that Miss B's complaint should succeed. I'd also need to be persuaded that what I consider to be proportionate checks would have shown MBNA that Miss B couldn't sustainably afford the repayments she might need to make. So I've looked at Miss B's bank statements, and what she's told us about her financial situation, to see what better checks would have shown MBNA.

At this stage I want to be clear that I am not suggesting that this is the exact check that MBNA should have carried out. I do think MBNA needed better information about what was happening with Miss B's finances. And looking at her bank statements is one way of achieving that although there are of course many other ways that level of detail could be established. But I think that by looking at Miss B's bank statements I can get a good idea of what better checks might have shown.

I think the greatest change in Miss B's circumstances was that she appeared to no longer be in work. But whilst that meant she faced a reduction in her income, she was receiving a large payment each month from the father of her two children, as well as some state benefits. Whilst I accept Miss B's comments that the payment for her children was not as a result of any Court directions, so could not be guaranteed, it does seem to have been received regularly. So even if I didn't treat it as income, as it was intended to support her children, it certainly reduced the living costs that she might need to pay each month.

I've looked closely at the rest of Miss B's normal expenditure on her bank statements. Her bank statements show that she generally managed her expenditure within her means. Miss B's monthly income and expenditure were generally in line. And included within the expenditure appears to be a number of items that might not be considered essential and so wouldn't have formed part of any calculations that MBNA carried out of Miss B's disposable income.

So whilst I appreciate how disappointing my decision will be for Miss B, I'm not persuaded that MBNA's decision to increase her credit limit was irresponsible. I think the results of the checks MBNA should have performed would have led to a conclusion that Miss B would be able to afford the increased monthly repayment on her credit card in a sustainable manner. So I don't think MBNA did anything wrong when it first agreed to give the credit card to Miss B, or when it subsequently increased credit limit.

For completeness I've also considered whether MBNA acted unfairly or unreasonably in some other way given what Miss B has complained about, including whether its relationship with her might have been viewed as unfair by a court under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think MBNA lent irresponsibly to Miss B or otherwise treated her unfairly in relation to this matter. And I haven't seen anything to suggest that s.140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against MBNA Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 9 September 2024.

Paul Reilly
Ombudsman