

Complaint

Mr B has complained that MBNA Limited ("MBNA") failed to carry out sufficient credit checks before granting him an increase to the credit limit on his credit card.

Background

MBNA initially provided Mr B with a credit card with a limit of £6,900.00 in July 2016¹. The credit limit was first increased to £9,400.00 in March 2017; then increased to £12,500.00 in July 2017; before it was finally increased to £14,000.00 in February 2019.

Mr B subsequently fell into difficulty making his payments on the card. This resulted in the account being defaulted and then a debt being sold to a third-party debt purchaser in October 2021.

In November 2023, Mr B complained that MBNA shouldn't have given him the credit card or any of the limit increases. MBNA didn't uphold Mr B's complaint as it believed that he complained too late. Mr B remained dissatisfied at MBNA's response and asked our service to consider his complaint.

After Mr B referred his complaint to our service, one of our ombudsmen explained that we couldn't consider Mr B's complaint about MBNA's initial decision to provide the card or the first two credit limit increases, as he complained too late. The ombudsman also explained why we were able to consider the complaint about the final limit increase. From that point onwards, Mr B's complaint has been about the final limit increase to £14,000.00 which took place in February 2019. And this decision is solely considering whether MBNA acted fairly and reasonably towards Mr B in relation to this matter.

Mr B's complaint about the final limit increase has been considered by one of our investigators. She reviewed what Mr B and MBNA had told us and she thought that MBNA hadn't acted unfairly or unreasonably towards Mr B when increasing his credit limit in February 2019. So she didn't think that Mr B's complaint should be upheld.

Mr B disagreed with our investigator's assessment and asked for an ombudsman to look at his 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 B's complaint.

¹ Both MBNA's final response and our investigator's assessment refer to the card being provided in June 2016. However, Mr B's credit agreement was signed in July 2016.

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

Given Mr B's response to our investigator's assessment, I think that it would be helpful for me to set out that we consider what a firm did to check whether repayments to credit were affordable (asking it to evidence what it did) and determine whether this was enough for the lender to have made a reasonable decision on whether to lend.

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 that information – 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, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.

That said, I think that it is important for me to explain that our website does not provide a set list of mandated checks that a lender is expected to carry out on every occasion – indeed the regulator's rules and guidance did not and still do not mandate a list of checks to be used. It simply sets out the types of things that a lender could do.

It is for a lender to decide which checks it wishes to carry out, although we can form a view on whether we think what was done was proportionate to the extent it allowed the lender to reasonably understand whether the borrower could make their payments. Furthermore, if we don't think that the lender did enough to establish whether the repayments to an agreement was affordable, this doesn't on its own mean that a complaint should be upheld.

We would usually only go on to uphold a complaint in circumstances where we were able to recreate what reasonable and proportionate checks are likely to have shown – typically using information from the consumer – and this clearly shows that the repayments in question were unaffordable.

I kept this in mind when deciding Mr B's complaint.

MBNA says it agreed to increase the credit limit on Mr B's credit card to £14,000.00 in February 2019 after it carried out a credit search. The credit search carried out suggested that Mr B had no significant adverse information recorded – such as defaulted accounts or county court judgments ("CCJ") – recorded against him.

Furthermore, the credit search showed that Mr B only had a single hard search recorded against him in the lead up to this application. Finally, MBNA says it relied on the fact that Mr B's MBNA card balance was at £6,171.00, which was less than half of his existing credit limit. In MBNA's view, all of this information indicated that Mr B would be able to make the monthly repayments due for this credit card.

On the other hand, Mr B says that he already had an excessive amount of debt and reasonable checks would have shown that he was already struggling to juggle the required payments to his existing creditors. Therefore, he shouldn't have been offered his limit increase.

I've considered what the parties have said.

What's important to note is that Mr B was provided with a revolving credit facility rather than a loan. And this means that MBNA was required to understand whether a credit limit of £14,000.00 could be repaid within a reasonable period of time, rather than all in one go.

It's fair to say that a credit limit of £14,000.00 wasn't low and so it would have required reasonable chunky monthly payments in order for the full balance to have been cleared within a reasonable period of time. As I've explained, MBNA considers that the checks it did carry out showed that Mr B could make his payments.

I've thought about what MBNA has said. Having done so, I'm struggling to reconcile some of what MBNA says it saw. For example, it has said that Mr B had a balance of £6,171.00, on this card, at the time the limit increase was offered. However, I can't see that this tallies with his credit card statements. The statements I've seen suggest that Mr B's balance was over £10,000.00 in the period prior to the limit increase.

In any event, and more importantly, I can't see that MBNA took any steps to ascertain Mr B's income, or find out what his committed expenditure was. I would have expected MBNA to have had some idea of this information in circumstances where it was providing Mr B with the opportunity of accruing a balance of up to £14,000.00.

As MBNA cannot evidence having obtained this information from Mr B, I'm not persuaded that the checks it carried out before it offered Mr B the credit limit increase in February 2019 were reasonable and proportionate.

As MBNA didn't carry out sufficient checks, I've gone on to decide what I think it is more likely than not to have seen had it obtained further information from Mr B. In order to do so, I've looked at the information Mr B has provided with a view to recreating what a proportionate check is likely to have shown.

To be clear, I'm not going to carry out a forensic analysis of Mr B's bank statements and all of the information he's provided in order to determine whether the credit card payments that could be due, if Mr B used all of the extra credit provided, were affordable for him. I'm simply going to consider what MBNA is likely to have done if it had taken reasonable steps to obtain the information that I think was missing from its checks.

As I've explained, bearing in mind the circumstances here, I would have expected MBNA to have supplemented what it would have found out about Mr B's existing credit commitments, from the credit search it carried out, with information about Mr B's income and his regular living expenses.

Having considered everything, I'm satisfied that the information provided does appear to show that MBNA finding out more about Mr B's income and regular living expenses is unlikely to have seen it reach a different lending decision. I say this because it looks like when Mr B's regular and committed living expenses are added to his credit commitments and then deducted from his income, he did have sufficient funds left over in order to make a sustainable repayment for this credit card.

I accept that Mr B says that his situation was worse than this and his outstanding debts were higher. I also accept that Mr B had made other successful applications for credit and likely owed more elsewhere than MBNA believed. However, the information provided shows that some of this credit was taken just before and around the time of this limit increase. As it can take up to 90 days for credit reference agencies to reflect new accounts, I think it is unlikely that MBNA would have been aware of the full extent of Mr B's indebtedness.

I'm also mindful that Mr B's statements show him regularly moving money around and he's also said that he kept what he's called a 'debt tracker' to help him manage the constant shuffling of debt. I do appreciate that this is likely to have been a difficult time for Mr B and that he was in all likelihood doing the best that he could to keep up with his payments and avoid adverse consequences. However, I do think that Mr B's actions had the effect of masking his issues.

I say this particularly as the copy of the full credit file Mr B has provided, indicates that Mr B didn't have much, if any, adverse information on his credit file at the time of this application. I also have to keep in mind that Mr B was being provided with a promotional interest rate as part of this limit increase, which would have resulted in a significant interest saving on any debt that he did transfer over at the time. In my view, this will have mitigated some (but not all) of the risk of increasing Mr B's credit limit by a further £1,500.00.

Furthermore, a look at Mr B's payment history also shows that he was making significant payments. For example, Mr B's last annual credit card statement prior to the increase, which was issued in July 2018, showed that he had made payments of just under £5,800.00 and had total spending of £7,600.00.

Mr B's credit card statement for the following month also shows that he made a payment of £4,300.00 that month too. I appreciate that in the period from August 2018 up until the limit increase, Mr B only made minimum payments. I note that Mr B has said that the disposable income figure the investigator arrived at did not account for irregular or unplanned expenses or household emergencies and didn't take account of him only making minimum payments.

However, Mr B was making minimum payments, on his MBNA card at least, during a period where Mr B's account wasn't accruing interest. At this point, the balance Mr B had was made up entirely of promotional transfers. So Mr B was making inroads into what he owed on his MBNA card and, in these particular circumstances, it was reasonably entitled to conclude that Mr B had a good repayment record in the period leading up to the limit increase.

I also have to take into account that the disposable income that's been arrived at, at this stage, has been calculated using bank statements. I think that the use of bank statements is likely have resulted in more of Mr B's expenditure having been captured, than MBNA trying to find out more about Mr B's income and his regular living costs.

This is especially given MBNA wasn't required to request bank statements as part of a proportionate check. For example, it could have instead asked for copies of bills or other evidence of payments. In any event, I think that the amount Mr B had left over is sufficient to have left him enough to make sustainable payments his card and meet his foreseeable commitments, as per the regulations.

Overall and having carefully considered everything, MBNA has not persuaded me that the checks it carried out before offering to increase Mr B's credit limit increase in February 2019, were reasonable and proportionate. That said, I'm nonetheless satisfied that it carrying out such checks, won't have prevented it from offering the limit increase to Mr B in this instance. Therefore, I don't think that MBNA acted unfairly or unreasonably and I've not been persuaded to uphold Mr B's complaint.

I appreciate this will be very disappointing for Mr B. 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 B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 26 February 2025.

Jeshen Narayanan
Ombudsman