

Complaint

Mr D has complained about a credit card 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 that had an unreasonably high limit.

Background

MBNA provided Mr D with a credit card with an initial limit of £8,800.00 in April 2019. The credit limit on Mr D's credit card wasn't ever increased.

One of our investigators reviewed what Mr D and MBNA had told us. And he thought MBNA hadn't treated him unfairly when offering Mr D his credit card with a limit of £8,800.00. So he didn't think that MBNA had done anything wrong or that it needed to pay any compensation.

Mr D 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 D's complaint.

Having carefully considered everything, I'm not upholding Mr D'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 D 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 D 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 D 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 D would be able to make the monthly repayments due for this credit card.

On the other hand Mr D 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 D 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 £8,800.00 could be repaid within a reasonable period of time, rather than all in one go. A credit limit of £8,800.00 wasn't small nonetheless it 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 a reasonable period of time in this instance is likely to be the term of an equivalent loan offered for this amount.

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

I also say this while mindful that Mr D had a 0% interest balance transfer option of 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 D's existing debts and the total amount of funds he's likely to have been in receipt of, there is a reasonable argument to say that MBNA's checks did go far enough in this instance. Indeed as Mr D was transferring an existing credit card balance 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

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 D's actual living costs at the time of the application. But I don't think that MBNA would have made a different decision even if it had asked Mr D for such information.

I say this because I've not seen anything that shows me that when Mr D'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 D's regular living costs at this time.

I accept that Mr D's actual circumstances at the time were worse than what the information about his living costs shows. Having looked at Mr D's statements, I can clearly see why he might well have had difficulty making the required payments. I also accept that if MBNA had gone into the depth of checks Mr D appears to be saying it should have – such as obtaining bank statements from multiple accounts – it's possible, but by no means certain, that it may have reached a different decision.

Furthermore, I know that Mr D has had some discussion with the investigator over what the transactions on his accounts were for. 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 D's accounts – especially as bank statements weren't the only way that MBNA could find out about Mr D's living expenses in the first place. And they certainly wouldn't have gone into the level of granularity that Mr D and our investigator have.

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

Finally, approving this application would lead to MBNA providing Mr D with a first balance transfer, with a promotional 0% interest offer, on this card. And this was in circumstances where there wasn't a history of Mr D 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 could reasonably leave Mr D 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 D's indebtedness in a way that was unsustainable or otherwise harmful.

Overall and having considered everything, I'm satisfied that MBNA didn't act unfairly towards Mr D when providing him with his credit card and I'm therefore not upholding this complaint. I appreciate this will be very disappointing for Mr D. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

Although I'm not upholding this complaint, I'd like to remind MBNA of its obligation to exercise forbearance and due consideration in relation to the outstanding balance on Mr D's account should it be the case that he is experiencing financial difficulty.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 16 January 2024.

Jeshen Narayanan
Ombudsman