Credit card limit increases

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Table of contents

1 Introduction ... 1

2 Credit Card Limit Increases Best Practice Guidelines ... 2
2.1 Introduction ... 2
2.2 Guidelines for Notice Period ... 2
2.3 Guidelines for giving customers control ... 2
2.4 Guidelines for Responsible Lending ... 3
2.5 Guidelines for Information Provision ... 4
2.6 Effective Date ... 4

1. Introduction

A lender's ability to manage credit limit increases is an important part of responsible lending practices, helping to ensure that customers are only lent what they can afford to repay.

The UK Cards Association's members maintain high standards of responsible lending and encourage responsible borrowing not only when issuing credit cards, but also when granting credit limit increases to customers.

To enable consistency across the industry and to allow consumers to understand how and why their credit card limits may change, the following guidelines have been developed and approved by card issuers.

The guidelines are built around what are known as 'low and grow' policies. This means customers may be granted a small initial credit limit and, if the card is used responsibly and other data indicates that the cardholder would be able to manage a higher limit, it may be increased incrementally. This encourages responsible borrowing and allows cardholders to manage their credit.

The guidelines make clear that checks on customers' ability to repay and overall creditworthiness do not start and end with a credit card application – and that credit limit increases should be granted only after checks have been undertaken. This will usually be done using behavioural scoring and data from credit reference agencies.

Customers can request that there are no credit limit increases on a card account or can reduce their credit limit at any time.

These guidelines have been incorporated into the Lending Code.

2. Credit Card Limit Increases Best Practice Guidelines

2.1 Introduction

Card issuers recognise the importance of lending responsibly both when issuing cards and subsequently granting increases to credit limits.
The UK Cards Association has developed the following set of guidelines for credit limit increases.

The guidelines set out best practice to encourage a consistent approach across the industry. They are not legally binding. Any failure to follow them does not give rise to any right of action.

The guidelines reflect common industry practices in respect of responsible lending, such as ‘low and grow’ policies.

2.2. Guidelines for Notice Periods

A subscriber will provide written notice to a customer (which may include individual electronic communication where the customer has indicated his willingness to receive communications in this form) of its intention to increase the customer’s credit limit and such notice will be given at least 30 days before the limit increase is due to take effect. This communication will be separate from any account statement and will include the following information:

- Current credit limit;
- The new increased credit limit;
- The customer’s right to reject the credit limit increase;
- How the customer can reject the proposed credit limit increase and reassurance that the subscriber will not treat them any differently simply because they exercise their right to reject a credit limit increase.

Such notice need not be given where a subscriber gives a customer a temporary or an emergency credit limit increase.

2.3. Guidelines for giving customers control

Customers may at any time:

1. Request a reduction in their existing credit limit;
2. Reject an unsolicited credit limit increase;
3. Inform the subscriber that they do not want to be given a credit limit increase at all in the future;
4. Request an increase in their credit limit.

If a customer exercises any of these rights it does not prevent them from asking for a credit limit increase at a later date.

In the case of 1 and 2 above, subscribers will make it as easy as possible for customers to exercise these options by offering them automated methods of communication, such as online (for example, using a specified proforma) or through an automated telephone system (or another automated communication method), not withstanding the customer’s right to speak to a human operator.

2.4 Guidelines for Responsible Lending

Card issuers should take an active approach to ensure responsible lending.

General Checks for Credit Limit Increases

Issuers should undertake appropriate checks to assess a customer's ability to repay and overall creditworthiness before increasing a credit limit. These checks should include reference to information from credit reference agencies plus at least one of the following three points:

– The customer's income and financial commitments

– How they have handled their finances in the past

– Internal credit scoring techniques

Unsolicited Credit Limit Increases – Risk Indicators

Before selecting an account for an unsolicited credit limit increase, issuers will use a diverse range of internal and external data. This is used in different ways, with different weightings and below are some illustrations of the types of factors typically used within credit scoring. Not all such information is available to all issuers. It is important to note that, in isolation, these may not in fact be indicators that a customer is showing signs of financial difficulties. Potential examples include evidence of:

– Regular late and/or missed payments

– Paying the minimum payment over an extended period, and possibly across multiple credit/store cards, particularly with high balance/limit utilisation

– Changes in repayment behaviour, which could potentially point to a change in the customer's circumstances

– A significant increase in overall outstanding balances over time

– Instances of exceeding credit limits

– Making frequent use of cash advances

– Problems in respect of other accounts held across a group relationship, such as a current account, or a mortgage

– Sudden reductions in income and/or high debt to income ratios

Unsolicited Credit Limit Increase – Exclusions

Specifically, unsolicited credit limit increases should not be offered by issuers in the following circumstances:

a. Where the account is currently in arrears

b. Where the balance currently exceeds the credit limit

c. Where we have been formally notified by a debt advice agency that the customer is in serious discussion with them. Providers should also look to exclude customers who are clearly following a structured 'assisted self-help' process, where this information is accessible on the provider's existing systems

d. Where an agreed repayment plan is in place

- Where an emergency, i.e. temporary, increase to a credit limit is granted e.g. when a transaction goes for authorization and will take the customer over their pre-agreed limit, the issuer should always assess the customer's ability to repay.
- Issuers should advise customers that checks are made before a limit is increased (the method and timing of advice will be at the issuer's discretion).

2. Credit Card Limit Increases Best Practice Guidelines

2.5 Guidelines for Information Provision

- Card issuers will give customers the information they require to make informed decisions. Information should be clear, concise, consistent and customer-friendly. The format and presentation of such information is at the individual issuer's discretion.
- Customers may contact their issuer if they wish to reduce their credit limit. .
- Issuers will advise customers if they decide to reduce their credit limit.

2.6 Effective Date

These best practice guidelines are effective from 1st January 2011.