

The complaint

Mr M complains that Creation Financial Services Limited trading as Creation decreased the credit limit on his credit card. And he complains that Creation failed to give him adequate notice of that change causing him concerns when he was notified his spending was approaching his credit limit.

What happened

Mr M holds a credit card with Creation. On 15 February 2024 Creation made a commercial decision to reduce Mr M's credit limit from £10,000 to £2,400. It sent a letter to Mr M on the same day notifying him of the reduction. Mr M says that letter wasn't received until 24 February. He says that by that time he had received a notification that he was approaching the credit limit on his card leading him to be concerned that unauthorised transactions had taken place. Mr M complained to Creation about what had happened.

Creation didn't agree with Mr M's complaint. It told him that it used a range of measures to decide what credit limit it was prepared to offer, and reviewed those criteria on a regular basis. It said it had written to Mr M to advise him of the change. Unhappy with that response Mr M brought his complaint to us.

Mr M's complaint has been assessed by one of our investigators. She thought that Creation was entitled to change the credit limit it offered to customers. And she noted that a letter had been issued informing Mr M of that change even though there was no regulatory requirement to do so. So although she acknowledged that Mr M had felt some concerns when he inadvertently approached his new limit, the investigator didn't think that Creation had done anything wrong.

Mr M 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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr M and by Creation. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the

business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

The setting of a credit limit is a commercial decision for a lender. But it also needs to comply with its regulatory responsibilities to ensure that any credit being offered can be repaid by a consumer in a sustainable manner. Circumstances change from time to time so it is right that a responsible lender should regularly review what it knows about a consumer, and the way in which they have historically managed their credit commitments, to decide whether any changes to a credit limit would be appropriate.

I've reviewed the terms and conditions of the account and the pre contract credit information. Both of these documents would have been provided to Mr M when he took out the credit account. The pre credit information states that Creation can change the credit limit from time to time depending on its assessment of the account and the account holder's financial circumstances. So based on what I've seen, Creation has the contractual right to change the credit limit. So I'm unable to say that it did something wrong when it reduced the limit on Mr M's account.

Creation has said that it is unable to advise Mr M exactly what criteria was used when the decision to reduce the credit limit was made. This is because the information is business sensitive. Some of the more common reasons for a credit limit being reduced are (amongst others), a change in credit activity (late payments on the account or a decrease in credit score), account review (based on the lenders assessment of the consumers financial situation, credit history and overall risk) or economic conditions (for instance a recession or to reduce the lenders exposure to risk in uncertain financial times). I'm not saying that these factors were the reason for the credit limit decrease in Mr M's case, but they are common reasons.

I understand that Mr M is disappointed about the impact that the credit limit decrease might have had on his credit score. A credit limit decrease can impact on a credit score but not directly. The credit utilisation rate is the amount of credit being used compared to total available credit across all credit accounts. This ratio is a significant factor in a credit score calculation. When a credit limit is decreased, the available credit decreases. So maintaining the same credit balance will increase the credit utilisation ratio. Over time this may negatively impact a credit score.

There are other factors which can impact on a credit score, such as (for instance) the number of credit accounts open, recent applications for credit and late payments. I can't be certain of exactly why Mr M's credit score has reduced. But even if the reduced credit score is solely due to Creation reducing the credit limit, I'm unable to say that Creation has done something wrong. The impact on the credit score is (potentially) a consequence of Creation reducing the credit limit, which it is contractually allowed to do.

The current regulations only require a lender to formally notify a consumer when a credit limit is being increased. But I agree that good practice might indicate a similar notification should be issued when a credit limit is decreased. That would prevent the sorts of issues that Mr M has told us about here when a consumer's spending on their card doesn't take account of any reduced credit limit.

But I think it is important, once a lender has identified that a credit limit should be reduced, that action is taken without delay. To provide a period of say 30 days, as Mr M suggests, would enable consumers to take additional borrowing that a lender has already decided they cannot afford. So I think Creation acted reasonably by reducing Mr M's credit limit at the same time it sent him a letter confirming the change.

I appreciate that Mr M will find this decision disappointing. And it might be that he now finds that the Creation credit card, with the new credit limit, is no longer suitable for his needs. But I don't think that Creation acted unfairly by reducing the credit limit he had available to him. And nor do I think Creation should have provided an extended notice period to Mr M before the change was made.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 18 September 2024.

Paul Reilly
Ombudsman