

# Credit card limit increases

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

APACS' 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 industry responsible lending practices, and 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 and improve their credit record over time.

The guidelines make clear that checks on customers' ability to repay do not start and

end with a credit card application – and that credit limit increases should be granted only after checks to ensure a cardholder's ability to repay. Usually this is done using data from credit reference agencies.

In addition, 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 were incorporated into the Banking Code in March 2005.

## Credit Card Limit Increases Version 2.0 (June 2005)

### 1. Introduction

Card issuers recognise the importance of lending responsibly both when issuing cards and subsequently granting increases to credit limits.

APACS has developed the following set of guidelines for credit limit increases. The guidelines are intended to comply with the rules of the Competition Act 2002.

The guidelines set out best practice to encourage a consistent approach across the industry to increasing cardholders' credit limits. 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. Guidelines for credit limit increases

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

- Issuers should undertake appropriate checks to assess a customer's ability to repay before increasing a customer's credit limit. These checks should include reference to data sources other than the behavioural data for the credit card account, e.g. credit reference agency information or current account data. Increases should not be solely based on account performance data.
  - Any increase should always take into account the customer's risk profile.
  - Where an emergency, i.e. temporary, increase to a credit limit is granted e.g. when a transaction goes for authorisation 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).
  - Credit limit increases should not be offered on accounts that are in arrears and should not be granted for accounts that fall below credit scoring thresholds.
- ### 3. 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 opt-out of receiving credit limit increases.
  - Customers may contact their issuer if they wish to reduce their credit limit.
  - Issuers will advise customers if they decide to reduce the cardholder's credit limit.
- ### 4. Effective date

These best practice guidelines are effective from 31 December 2005.