

The complaint

Miss R complains that lending made to her by NewDay Ltd was irresponsible.

What happened

Miss R had three credit cards with NewDay. She wanted us to look at all the lending that NewDay had made to her.

Miss R applied for the first card in September 2017, a card carrying NewDay's "aqua" brand. That initially had a credit limit of £300, raised to £900 in March 2018. I'll call that Card 1.

Almost immediately after that, she applied for a card from NewDay branded with the name of a clothing store that I won't mention here. That had a credit limit of £900. I'll call that Card 2.

Then in April 2019, Miss R applied for a third credit card, branded with the name of a department store that I won't mention either. That also had a credit limit of £900. I'll call that Card 3.

Miss R didn't think any of this lending was suitable for her.

NewDay said that it thought all the lending it had made was responsible. It acknowledged that there had been some late payments during the lifetime of Card 1 and Card 2. It said these happened after the limit increase it made on Card 1. And it didn't think these late payments should've prevented the issue of Card 3.

NewDay said that all late payments had been brought up to date at the time Card 3 was issued, and previous late payments wouldn't prevent Miss R from borrowing with it, or any other lender.

NewDay said that Card 1 had been closed, at her request, and was being paid off. Card 2 was open, but Miss R hadn't used it since September 2018. This account was being paid off. Card 3 was also open, but Miss R hadn't used it since September 2019. The last payment on this card, which was due on 4 June 2020, hadn't been made, so at the time NewDay wrote to us, the account for Card 3 was one month in arrears.

Our investigator didn't think that the initial lending made in September 2017, through Card 1 and Card 2 that NewDay gave Miss R then, was unsuitable for Miss R. And she didn't think that NewDay should've realised in March 2018 that it would be irresponsible to offer Miss R a higher credit limit on Card 1.

But our investigator did think that there were signs that Miss R was in financial difficulty before Card 3 was given to her. She thought NewDay should've realised that this lending was unsuitable for her. So she thought NewDay had to refund interest and fees applied to this card.

Our investigator thought that NewDay hadn't suggested sources of support to Miss R when it should've realised that she might be experiencing financial difficulties. Because of that, she

thought NewDay should make more limited refunds on Card 1 and Card 2 as well.

NewDay sent our service further evidence, which included some letters sent to Miss R that did signpost her to sources of help if she was having financial difficulties. So our investigator changed her mind about whether NewDay had to pay any refund on Card 1 and Card 2.

But she didn't change her mind about the lending made on Card 3, or the proposed settlement on that card. She said Miss R had taken a number of payday loans in the six months before she took out Card 3, and NewDay told us two of those were still active when Card 3 was opened. Our investigator still thought NewDay should refund all interest and charges on the Card 3 from opening to present, because our investigator didn't think Miss R should have been given this account.

NewDay replied setting out its understanding of how Miss R's two existing accounts had been run in the months before Miss R's Card 3 application. NewDay and our investigator didn't agree, so the case was passed to me for a final decision.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

I've looked at the information NewDay considered when it granted Miss R's credit card applications for Card 1 and Card 2, and the subsequent limit increase on Card 1. Like our investigator, I don't think that NewDay should've realised at the time that the lending on Card 1 and Card 2 was unaffordable for Miss R. And I can see that NewDay did signpost Miss R to sources of help on occasion when she seemed to be having difficulties clearing her debts. I don't think that NewDay has to make refunds on either Card 1 or Card 2.

I think the situation is different with Card 3. I've considered carefully what NewDay said about how Miss R had managed Card 1 and Card 2 before Card 3 was opened. But, like our investigator, I think there were clear signs that Miss R wasn't managing her finances well at the time she made that third application.

NewDay has sought to minimise the significance of the late payments made by Miss R on her two pre-existing cards, before it approved her Card 3 application. Our investigator pointed out to NewDay that "*consecutively failing to meet repayments when due*" may indicate that a customer is in financial difficulties. I think that's right. I note that Miss R failed to meet repayments when due on Card 1, in January, February, March and April 2019. And she also failed to meet repayments when due on Card 2 in January and February 2019.

I appreciate that these payments weren't missed entirely, and sometimes they were made very soon after they were due. But they were not made on time. That remains a cause for concern. And it's not the only cause for concern at the time of Miss R's Card 3 application. Failed direct debit payments on both Card 1 and Card 2 in the early part of the year are an additional cause for concern. That suggests that this is not a simple oversight, as NewDay had suggested, but a sign that Miss R didn't have enough money to meet her debts when they fell due.

The overlimit fees charged on Card 2 in January and February 2019 are yet another cause for concern.

Looking at the situation overall, I think there was sufficient information available to NewDay to suggest that Miss R was not in control of her finances when it considered her application for Card 3. I don't think this card should've been granted.

I know that at the time NewDay updated us on the status of these accounts, only one was in arrears. But I've considered the conduct of the three cards since Miss R's third application was granted, and I don't think that demonstrates that NewDay was right to assert that this lending was affordable for Miss R. Miss R started to miss her due payment date on Card 3 almost straight away, and she then paid late for six months in a row.

I know that Miss R is no longer using Card 3, and hasn't done so for some time. I think that NewDay should close this card, and cease to charge interest on this debt. It should refund onto the account for Card 3, all the fees and interest charged on this card to date.

If that refund exceeds the amount Miss R owes, then NewDay should pay that money to Miss R, plus 8% simple interest. If there is still a debt outstanding, NewDay should work with Miss R to reach an agreement with Miss R to repay it.

This decision wouldn't prevent NewDay from recording late payments in future on Card 3, or defaulting that debt, if an agreement can't be reached and maintained. If Miss R feels NewDay is behaving unreasonably with regard to reaching that agreement, she can complain about this in future.

I also think that NewDay's decision to lend to Miss R has caused her additional difficulties while she continues to struggle to manage her money. So I think NewDay should pay Miss R £100 in compensation.

Miss R still owes NewDay this money, so I don't think that it would be reasonable to require NewDay to remove all evidence of this debt from her credit file. And having seen Miss R's credit file, it appears that NewDay hasn't recorded late payments for Miss R's Card 3 account, so I don't think it has to remove any late payment markers.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both sides replied.

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.

Miss R replied to say she had nothing to add.

NewDay replied to say it had already started to implement my decision. It had refunded £497.24 onto Miss R's card. It had closed the card account so no further interest would be charged. Miss R had a remaining balance of £219.91 to pay off.

NewDay said it had ensured that there was no negative reflection from this card on Miss R's credit file with the agencies it reports to. And NewDay said it would pay Miss R compensation when it got her bank details.

I'll now make the award I originally proposed, adjusted slightly solely to reflect that we now know the refund onto Miss R's card leaves a small amount owing.

My final decision

My final decision is that NewDay Ltd must close the account for Miss R's Card 3 account, and cease to charge interest on the debt. It should also refund onto this account all the fees and interest charged on Card 3 from opening to date. NewDay should work with Miss R to reach an agreement with Miss R to repay the outstanding debt.

And NewDay Ltd should also pay Miss R £100 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 5 December 2020.

Esther Absalom-Gough

Ombudsman