

The complaint

Mr M complains that NewDay Ltd trading as Marbles increased his credit limit, lending him money irresponsibly, and he couldn't afford to pay it back.

What happened

Mr M said he had a job when he applied for a credit card with NewDay, but then he became a student. NewDay increased his credit limit steadily from £300 to £2,050, without checking if he could afford to pay. Mr M said NewDay had lent him money irresponsibly. He couldn't afford to pay. NewDay transferred the debt to a third party debt collector, and he had to borrow money from family to pay it off.

NewDay said that it had checked Mr M's credit file before lending him money, and it had reviewed the position and offered him credit limit increases when he became eligible for those. Mr M had proactively contacted NewDay to accept the increases and have those applied to his account. NewDay said Mr M had never told it he was in financial difficulties. But NewDay said it had reviewed Mr M's account and it thought it shouldn't have offered him the second of these increases. So it said it would refund late fees of £60, overlimit fees of £36, and interest of £222.16.

NewDay said that before this, his account was well maintained, so it didn't think it had to do more.

Our investigator thought this complaint should be upheld. She said Mr M used almost all of the available credit on his account straight away. He was over his credit limit in October, November and December 2018, and in January and February 2019. Mr M didn't pay enough to make a significant decrease in his overall debt at any time before his limit was increased in March 2019. The limit was more than tripled. Our investigator didn't think it was reasonable to increase Mr M's limit in March 2019 based on how he used the account.

Our investigator said that following this, Mr M used the majority of the limit between March 2019 and July 2019 as cash transactions. Our investigator said NewDay is aware this can be an indication of financial difficulties. And again, Mr M hadn't made any significant payments to reduce his overall balance. The limit was almost doubled again in July 2019. Our investigator didn't think the increase in July 2019 was reasonable either.

Our investigator recommended that New Day should:

- Refund all the interest paid on balances over £300 from March 2019 to when the account was cleared in April 2020.
- Refund all fees on the account from March 2019 onwards.
- Remove any late payment markers on Mr M's credit file from March 2019 until the account was settled.

She said NewDay could deduct its initial offer of £321.16 from this if it had been paid to Mr M already.

NewDay said the first increase was actually applied in April 2019, not March. It said it had reviewed the statements, and didn't agree that Mr M wasn't using the account within its limits

for the majority of the time. NewDay said that Mr M was only £0.33 over the limit initially, the main reason his limit was exceeded was fees and interest.

NewDay said Mr M then paid the exact amount required on his statements, but he didn't take into consideration the extra payment that was requested. So Mr M got into a cycle of fees being applied that continued the over limit status. When the limit was increased to £1,050 Mr M then utilised only half of the limit available. The end balance on his April statement was £520.68, which was a mixture of cash and retail spend.

NewDay said our service had previously said to it, when considering an appropriate credit limit on a credit card account, the card provider should assume that the cardholder will draw down the full amount available at the earliest opportunity and repay it over a reasonable period. The assumption of what constitutes a reasonable period should have regard to a typical period and other terms of a fixed-rate loan for a similar amount.

NewDay said it only offered Mr M a credit facility, it was up to him whether he accepted that, and used it.

NewDay said it had only offered a refund from the last increase in July 2019 because not only did it see a change in account management around this time, but that change was also recognised by the credit bureaus. Up to that point, neither of the credit reference agencies NewDay used had reported any financial difficulty or affordability indicators.

NewDay said if Mr M's income had reduced during the time he had the account, he had an obligation to update it. If he was struggling to maintain payments, he had a responsibility to tell it. NewDay said we hadn't held Mr M accountable for his actions.

Our investigator didn't change her mind. Because no agreement was reached, this 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:

Mr M hasn't complained about the initial lending NewDay made to him. He said he had a modest income then. But then he became a student, and NewDay made credit limit increases he told us he couldn't afford.

Mr M was offered a sizeable credit limit increase in March 2019. I have noted the issues that our investigator set out, with Mr M going over his credit limit almost immediately, and remaining over the limit for five months. In the sixth month, Mr M was offered a very sizeable credit limit increase.

The rules set out in the CONC section of the Financial Services Authority handbook applied to this lending. In broad terms, the principle is that NewDay ought not to offer increased lending to Mr M if it considered he was at risk of financial difficulties. NewDay said that Mr M wasn't taking account of the additional fees he needed to cover each month, and that's why he remained over his limit. So Mr M's statements at the time would've told him that he needed to make a larger monthly payment, and that he was over his credit limit. But he didn't bring his account back into good order for some five months. In the same month he managed to get his card back under its limit, Mr M was offered a significant increase to that limit.

I do think that Mr M's existing use of this card ought to have suggested to NewDay that Mr M was not managing his card well, and was at risk of financial difficulties. So a significant increase in Mr M's credit limit was unlikely to be affordable for him.

I think that Mr M's previous use of the card meant that this increase shouldn't have been offered in March 2019, even without taking account of the fact that NewDay had only ever been told that Mr M had a very low personal income, and his other use of unsecured credit had also significantly increased during this time.

Mr M was then offered a subsequent increase in July 2019. Mr M took well over half of this increase in cash advances in the next couple of months. NewDay knew this, and it knew that a significant number of cash advances on a credit card can be a warning sign of financial difficulties, but it offered him another increase to his credit limit only four months after the first increase. I also think this increase should not have been made.

Mr M then borrowed most of the newly available credit in August, in cash advances. He was over his new limit in September 2019. He started to miss payments altogether that month. His account has since been closed.

I think that NewDay ought to do the following, taking effect from the date in either March or April when Mr M's credit limit increase was applied. –

- Refund all the interest paid on balances over £300,
- Refund all fees on the account,
- Remove any late payment markers on Mr M's credit file.
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NewDay said Mr M's limit increase was applied in April, but it hasn't given us a date for this. It wrote to him on 18 March to offer this limit increase, and it has told us that he proactively contacted it to have this increase added to his account. So this may have happened as early as 19 March 2019.

If NewDay cannot determine now the date when Mr M's credit limit increase was applied, it must use 19 March 2019.

NewDay can deduct its initial offer of £321.16 from my award if it has been paid to Mr M already.

NewDay said that our service hadn't held Mr M accountable for his part in what had gone wrong with this lending. I have considered that, as part of my assessment of this complaint, and I make no additional award for compensation in this case.

I invited the parties to make any final points, if they wanted, before issuing my final decision. NewDay didn't reply. Mr M replied to accept this decision. He said he hadn't accepted NewDay's offer, and kindly alerted me to a typo in my provisional decision, which I have corrected in the above.

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.

I haven't changed my mind. I'll now make the award I originally proposed.

My final decision

My final decision is that NewDay Ltd, trading as Marbles, must do the following, taking effect from the date in either March or April 2019 when Mr M's credit limit increase was applied –

- Refund all the interest paid on balances over £300,
- Refund all fees on the account,
- Remove any late payment markers on Mr M's credit file.

If NewDay cannot determine now the date when Mr M's credit limit increase was applied, it must use 19 March 2019.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 31 December 2020.

Esther Absalom-Gough
Ombudsman