

The complaint

Mr M complains that NewDay Ltd, trading as Marbles, irresponsibly increased his limit on his credit card, without checking that he could afford it.

What happened

In 2017, Mr M applied for a Marbles credit card provided by NewDay. It offered him a credit limit of £600. Following a review of his account, NewDay wrote to Mr M to say that he was eligible for a credit limit increase to £1,500 in February 2018. It gave him the opportunity to opt out of the increase. As Mr M didn't contact NewDay, his limit was increased the following month.

Further reviews took place in June 2018, October 2018 and May 2019 and, at each time, Mr M's credit limit was increased. In June 2019, it increased from £4,000 to £6,000.

In November 2019, Mr M complained. He felt his credit limit had been increased irresponsibly, from £600 to £6,000 over a two-year period. He felt this had caused him to have problem debt. He asked that the interest be stopped and refunded; and a percentage of the debt to be written off. He asked NewDay to accept payments of £50 a month until his financial position improved.

In February 2020, NewDay agreed a reduced repayment plan with Mr M for £1 a month.

In March 2020, NewDay wrote to Mr M to say that it had found that it had offered Mr M a credit increase in May 2019 when it shouldn't have. It refunded fees and interest charged to Mr M's account of £148.54 and £48.66.

It also then responded to Mr M's complaint. NewDay said it believed its decision to provide Mr M with the account and credit limit increases were offered correctly. It said he had met its acceptance criteria and was offered a credit limit of £600 which it felt was appropriate for his circumstances. NewDay said it reviewed Mr M's account and he had been eligible for a credit limit increase, which he had the option not to accept. NewDay said that the management of Mr M's account was in line with its terms and conditions and it takes into account a number of factors when reviewing a customer's credit limit.

Mr M's credit card account defaulted in May 2020 and his outstanding debt was sold on to a third party.

One of our investigators looked into the complaint and thought it should be upheld. He referred to the Consumer Credit Sourcebook which contains guidance on what a lender should have in mind when thinking about a consumer's ability to afford credit. While the investigator was satisfied that proportionate checks were carried out for Mr M's original application for the credit card, and for when NewDay increased his credit limit to £1,500, he felt that a review of Mr M's statements showed that he then became reliant on the credit for everyday spending. Mr M incurred an over limit fee of £12 in June 2018 and his monthly repayments didn't significantly increase even though his spending had.

The investigator didn't think NewDay took reasonable steps to assess Mr M's ability to meet his repayments in a sustainable manner. NewDay had confirmed that Mr M shouldn't have been offered a credit limit increase in June 2019 and had offered a partial refund of interest. But the investigator didn't think that the two earlier increases to £2,700 in August 2018, and to £4,000 in November 2018 were done responsibly. The investigator said NewDay should repay interest and charges from the date of the second increase in August 2018 and remove the adverse data recorded on Mr M's credit file.

NewDay didn't accept the investigator's findings. It said that Mr M's information showed no late payments with other creditors and no indications of financial difficulty. It said that the over limit fee he incurred may have been an issue of poor account management for that month. NewDay said that not only had it looked at how Mr M managed his card, it took external factors into account as well. It said Mr M hadn't used the full credit limit increase straight away, but instead he used it gradually.

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.

Mr M feels that NewDay's actions in increasing his credit limit have caused him to have problem debt. Before increasing a customer's credit limit, a business should undertake an assessment to consider how and whether such an increase may impact the customer's financial situation. It should take into account:

- the information it already has about the customer at the time of the increase;
- the ability of the customer to make repayments as they fall due; and
- information obtained from a credit reference agency – along with one of the following:
 - the customer's income and financial commitments.
 - how they have handled their finances in the past.
 - internal credit scoring techniques.

The business should give 30 days' notice of the increase and allow the customer the option to reject it in writing, online or by phone. Which I can see that NewDay did on each occasion it looked to increase Mr M's credit limit.

This was done in the following ways:

| Effective Date | Credit Limit | Amount of increase |
|-----------------------|---------------------|---------------------------|
| 26 October 2017 | £600 | - |
| 06 April 2018 | £1500 | £900 |
| 07 August 2018 | £2700 | £1200 |
| 02 November 2018 | £4000 | £1300 |
| 05 June 2019 | £6000 | £2000 |

I've reviewed Mr M's application for the credit card, and the information NewDay has provided about the assessment it made of his circumstances at that time. And I think that the initial limit of £600 was reasonable for him. And Mr M has told us that he found it to be very manageable.

NewDay has acknowledged that Mr M had historic defaults showing on his credit history, but it felt these were from long enough ago that he met its acceptance criteria. So I don't think NewDay was irresponsible in accepting Mr M's application and offering him the £600 limit.

NewDay has explained that it regularly reviews how its customers are managing their accounts. And it did this for Mr M after six months and increased his limit by £900 in April 2018. Having considered the information provided about the checks NewDay undertook when offering this increase and considering Mr M's management of his account at that time, this level of increase seems reasonable and sustainable for him.

But I can see that in the following two-month period, Mr M's credit card balance went up so that by June 2018 he had exceeded his limit and incurred a £12 fee for this. He then paid an amount the following month to reduce the balance back under the limit. NewDay has said that this wouldn't exclude a customer from being eligible for a credit limit increase. And I appreciate NewDay's point that a one-off incident such as this, followed by a larger payment to bring the balance back under the limit, may not necessarily give cause for concern that Mr M was experiencing difficulties managing his finances.

But I also think these circumstances should alert a prudent and responsible lender to ensure proportionate checks and questions are asked to establish whether a future credit limit would be affordable. However, NewDay then offered Mr M a further increase just a few days after the £12 charge had been applied to his account.

This increase was by a further £1,200, and this came into effect less than two months after the time he exceeded his limit. I think this was a significant uplift – almost doubling Mr M's credit limit. I can see that he maintained a balance below his limit over the following few months, and that he was using his credit card less often during the following two months. But I think the fact that Mr M did exceed his limit on that prior occasion may give rise to a reason to more carefully consider whether a further increase would continue to be sustainable for him. And I'm not persuaded that the checks NewDay carried out to establish this were sufficient in these circumstances.

When his credit limit increased again just three months later to £4,000, Mr M seemed to quickly spend up to this limit. Again, I think this was a significant uplift for Mr M in a relatively short space of time. His statement from this time shows a large amount of spending, adding around £1,800 to his balance.

I've looked carefully through how Mr M's used his card and his available credit limit. And Mr M has also provided copies of his bank statements, which give me a greater picture of his financial position. I'm not saying that this is something that NewDay should also have done at the time it was carrying out proportionate checks when offering Mr M a higher amount of credit, but this helps to give me an understanding of his spending alongside that on his credit card.

Mr M has told us that he was often reliant on his father to supplement his income, and I can see this on his bank statements. However, when his father was no longer in a position to provide him with financial support, Mr M had difficulty managing.

Although I do appreciate that NewDay wasn't responsible for this change in Mr M's family situation; I think it does indicate that Mr M was unable to manage his finances without this support. And I don't think that this is a situation that should have been relied upon to show that Mr M was able to afford to maintain his payments and be in a position to reduce his credit card balance within a reasonable time.

Having looked through Mr M's credit card spending and also the payments he was making towards his balance, I can see that there were times where he paid more than the minimum required payment. And, if taken in isolation, this could indicate an ability to maintain and manage the balance he'd built up. But, when considering the wider picture that these payments were made with the help of his father, I don't think this indicates that reasonable and proportionate checks were carried out when NewDay increased Mr M's credit limit.

Essentially, over a period of less than two years, NewDay increased Mr M's credit limit significantly, from a start of £600 to £6,000. NewDay has already found that it shouldn't have increased Mr M's credit limit from June 2019, and instead should have decreased his limit in May 2019. It has refunded interest and charges applied to his account because of this. But it also said that the credit limit of £6,000 was suitable for his needs. At the time the related letter was written, Mr M was over £300 above this limit. So it is difficult to conclude that this was affordable and sustainable for Mr M in these circumstances, when – if NewDay had received the relevant information from the credit reference agencies in 2019 – it would have looked to decrease his limit.

It's because of this that I think the credit limit increases NewDay applied to Mr M's account in August and November 2018, and in June 2019 were done irresponsibly and without sufficient, proportionate checks to ensure these increases didn't adversely impact upon Mr M's financial situation. I think that these increases were a contributing factor in the position Mr M now finds himself in, with his debt now being held by the third party.

Putting things right

I acknowledge that NewDay has already applied an interest refund to Mr M's account balance to recognise that the increase to £6,000 shouldn't have been offered to him. But, to put things right in the light of my findings, NewDay should:

- repay the interest and charges on the proportion of the credit limit increase above £1,500, from the date of the credit limit increase to £2,700 (7 August 2018) to date. This should include any charges or interest applied since the account was transferred to the third party;
- remove all related adverse data on Mr M's credit file including any adverse data recorded by the third party when the debt was transferred to it.

If the refund results in Mr M's account being in a credit position, 8% simple interest should be applied to the resulting amount from the date the interest was applied to the date the complaint is settled.

If NewDay considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr M how much it's taken off. It should also give him a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

If Mr M's account remains in a debit position once the interest and charges have been refunded; in order that he not be disadvantaged going forward, NewDay should arrange to transfer back his account from the third party and should agree a reasonable repayment plan with him for the balance.

My final decision

My decision is that I uphold this complaint and NewDay Ltd, trading as Marbles, should take

the action I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 25 October 2021.

Cathy Bovan
Ombudsman