

The complaint

Mr M complains about NewDay Ltd and their decision to approve his credit card application as well as the credit limit increases applied to the account.

What happened

In May 2016, NewDay approved Mr M's credit card application. They took into account Mr M's annual income, other household income and information shown on his credit file. Having done so, they provided Mr M with an initial £300 credit limit.

In September 2016, Mr M's credit limit was increased to £500. And in January 2017, it was increased to £600. But Mr M was in financial difficulty at the time, and he struggled to meet the minimum monthly payments of the account or stay within the limit provided. Mr M thought the credit card provided by NewDay had contributed to his financial difficulty, so he raised a complaint.

Mr M complained about NewDay's decision to approve his credit card application. He thought it was clear from the maintenance of another credit card he held with a linked business to NewDay, who I'll refer to as "A", that he was struggling financially. So, he didn't think NewDay did enough to confirm the affordability of the card and had lent to him irresponsibly. So, he wanted the interest and charges that had been applied to the account to be refunded, along with 8% interest from the date the application was approved.

NewDay didn't agree. They thought the checks they completed before approving the credit card application were proportionate to the limit they provided. And they thought the limit increases were reasonable. They explained Mr M had the option to opt out of the limit increases, but he'd chosen not to do so. And they explained that they were a lender who provided credit to customers who may not be able to obtain it elsewhere in order to improve their credit rating. So, they didn't think they'd done anything wrong, or needed to do anymore. Mr M remained unhappy with this response, so he referred his complaint to us.

Our investigator looked into the complaint and upheld it. She thought NewDay's initial decision to approve the credit card application was fair, and the checks they completed were proportionate. But she didn't think NewDay acted reasonably when offering Mr M limit increases. She explained in the four months between the card being provided, and the first limit being given, Mr M had exceeded his limit twice and made several cash transactions. She thought NewDay should've recognised this and how it may have pointed to the financial difficulty Mr M was in. And as they didn't, and continued to increase the limit by 67%, she thought NewDay had acted unfairly when provided both increases.

But she also recognised Mr M had an opportunity to opt out of the increases, and didn't do this. And she recognised Mr M had received a benefit of the money he'd spent. So, she thought NewDay should refund Mr M the interest and charges applied to the account after the first limit was applied, on any amount over the initial £300 limit. She also thought NewDay should pay Mr M 8% interest on any refund Mr M was provided. And finally, she thought NewDay should remove any negative information reported to Mr M's credit file that related to credit he'd received over the initial credit limit.

Mr M agreed with this recommendation. But NewDay didn't. They explained Mr M had only exceeded his limit due to the charges applied to his account following a cash transaction. And Mr M had made the payment needed to bring his account back under the initial limit. So, they didn't think this in itself was enough to suggest a limit increase wasn't appropriate. And they also didn't think Mr M spending up to his limit suggested he was in financial difficulty. They explained as per industry guidelines that affordability is calculated on the assumption a customer will spend up to the limit straight away. This is what Mr M had done but was also within Mr M's rights to do so. So, they didn't agree they'd provided increases unfairly and didn't think they should do anything more. As NewDay didn't agree, the complaint has been passed to me for a decision.

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.

Having done so, I'm upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

First, I want to recognise the impact this complaint has caused Mr M. I'm aware Mr M has found himself in financial difficulty and I can appreciate the worry and upset this would've caused. So, I can understand why he'd look back at the credit he's found difficult to maintain and come to the conclusion that he shouldn't have been provided it in the first place. When considering NewDay's decision to approve his credit card application, and offer Mr M limit increases, I've first thought about whether the checks NewDay undertook were proportionate. And then, whether NewDay assessed the information these checks provided fairly. And in this situation, I don't think they did so.

When Mr M initially applied for his credit card in May 2016, I've seen NewDay considered Mr M's income, additional household income, his residential status and his credit file. And after doing this, they provided an initial limit of £300. When considering whether these checks were proportionate, I've considered the amount of credit Mr M was provided compared to his annual income and other income that was available in his house. And in this case, the limit was very low compared to Mr M's income of £24,750, plus the additional household income of £15,000. So, I think the checks NewDay completed were proportionate to the limit they provided as they reasonably suggested Mr M would be able to repay the credit in a sustainable way.

But as well as considering the checks NewDay completed, I've also considered whether the information these checks provided was assessed fairly. As I've already explained, I think the income information Mr M provided suggested the limit to be reasonable. I've also seen the credit check NewDay assessed before approving the application. This showed that Mr M had a total of £10,700 unsecured credit before the application was made. But it also showed there were no accounts that had defaulted or had been in arrears. So, this search suggested Mr M had been able to maintain his accounts in the months leading up to his application.

As Mr M was applying for credit with a secure annual income, with additional household income available, and had no defaults or arrears in place, I don't think there was any information available to NewDay that suggested they should've automatically declined the application. Also, it's important to consider that NewDay are a business that look to provide customers with credit who may not be able to secure credit elsewhere. So, while I've considered Mr M's point about the maintenance of his account with A, I don't think this means NewDay were wrong to approve this application. So, I think NewDay acted fairly

when approving the application and initial limit of £300.

I've then turned to the credit limit increases. In September 2016, four months after the initial application was approved, NewDay increased Mr M's credit limit from £300 to £500. This is an increase of 67%. I understand NewDay doesn't think considering this increase is percentage terms is fair. But this percentage is a factual representation of the amount the limit was increased.

And I think a 67% increase within four months of an initial limit being provided is a substantial one. So, I've thought about whether Mr M's usage of his account in the four months prior to this suggested this was a fair increase to make. And I don't think it was.

In the four months prior to the increase, Mr M exceeded his limit twice, incurring additional charges. And Mr M exceeded his limit by withdrawing cash using the account, meaning the cash transaction charge took him over the limit. I've considered NewDay's comments about why they don't think Mr M exceeding his limit is representative, as it was due to the transaction charges which he hadn't considered. But I don't think this negates the fact Mr M did exceed his limit twice. And Mr M was using his card to withdraw cash, which I think should've suggested to NewDay that Mr M may have been struggling financially. He was needing to use this account for cash, rather than any current account he held, and I think this should've raised concerns for NewDay.

So, I don't think NewDay acted fairly when increasing Mr M's limit in September 2016. And as I don't think this limit should've been applied, then I don't think the second increase should've been applied in January 2017. But even so, I've looked at Mr M's maintenance of his account after the first limit was applied. And in the three months between the second increase, Mr M withdrew a further £220 in cash, resulting in cash transaction charges. So again, I think these cash advances should've suggested to NewDay that Mr M may have been struggling financially, and at the very least they should've sought further information before proposing an increase. But they didn't do so. So again, I think NewDay's decision to increase Mr M's limit was unfair.

Putting things right

As I think NewDay acted irresponsibly when increasing Mr M's credit limit in both September 2016 and January 2017, I've thought about what NewDay should reasonably do to put things right. And any direction I make is intended to put Mr M back in the position he would've been, had NewDay acted responsibly.

In this situation, Mr M has had the benefit of the principal amount he was lent. So, I think Mr M had a responsibility to repay this, in line with the credit agreement. But crucially, if the credit limits hadn't been provided, Mr M wouldn't have been able to continue to spend on his credit card and incurred interest and charges on the additional amounts he was provided. So, I think the interest and charges Mr M incurred after 20 September 2016 on the amount over the initial limit of £300 he was provided should be refunded. And 8% statutory interest should be applied to any refund Mr M is due. As I don't think Mr M should've been provided with the increased limits, I also think any negative credit information reported to Mr M's credit file after 20 September 2016 should be removed.

But I don't think NewDay should make an additional payment to compensate Mr M for any distress and inconvenience he experienced. This is because NewDay wrote to Mr M and made him aware of their intention to increase his credit limit and offered him the chance to opt out. And Mr M didn't do this. So, I've had to take into consideration Mr M's failure to mitigate his own circumstances. But that being said, I still think the ultimate responsibility of the limit increases, and the difficulties this caused Mr M, falls on NewDay who suggested the

increases in the first place.

My final decision

For the reasons outlined above, I uphold Mr M's complaint about NewDay Ltd and direct them to take the following action:

- Calculate and refund the interest and charges applied from 20 September 2016 for any balances in excess of £300 which haven't already been refunded;
- Pay 8% simple interest on this amount; and
- Remove any negative information reported to Mr M's credit file added after 20 September 2016.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 30 June 2021.

Josh Haskey
Ombudsman