

The complaint

Mrs B complains that NewDay Ltd irresponsibly allowed her to open three credit card accounts that were unaffordable.

What happened

Mrs B says she opened the NewDay accounts in 2017 and 2018 but it should have been obvious that she was in financial difficulties and had a Debt Relief Order. She would like the interest and charges refunded and the balances written off. Mrs B says the accounts made her financial position worse.

NewDay says the first account was opened in October 2017 and it carried out appropriate checks. It says Mrs B declared an income of £17,000 and had limited debts. It also says she didn't have any recent adverse information recorded on her credit file. NewDay accepts it shouldn't have increased Mrs B's credit limit on that account in March 2018 from £300 to £1,100 as that was unaffordable. It's refunded interest and charges on that account.

NewDay says Mrs B opened two further accounts in July 2018 and it carried out appropriate checks. It says both accounts had a credit limit of £450 each and that lending was affordable.

Mrs B brought her complaint to us and our investigator upheld her complaint in part. The investigator thought NewDay had carried out appropriate checks on the account opened in 2017 and any lending was affordable with a modest credit limit. The investigator agreed with NewDay that the credit limit increase was unaffordable in March 2018 as there were clear signs of unaffordability before the increase. And thought it acted fairly by refunding interest and charges.

The investigator thought that the two further accounts were also unaffordable and couldn't see how they could be affordable if the increased credit limit some months before was unaffordable. The investigator also thought it clear Mrs B had used the new credit limit on the first account by using cash transactions which was an indicator of unaffordability. The investigator recommended any charges and interest be refunded on these accounts.

NewDay doesn't accept that view and maintains appropriate checks were carried out.

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 have come to the same overall view as the investigator and for largely the same reasons. I find that if NewDay accepts the credit limit increase in March 2018 for £800 was unaffordable, then it must follow that allowing Mrs B to open two new accounts some months later, when her financial position had got worse, with a credit limit of £900 must also be unaffordable.

Lenders should carry out reasonable and proportionate checks on any credit application.

Those checks will of course vary depending on the amount and type of lending. I can see that NewDay did carry out such checks in 2017 when it approved the credit card account application. I think it fairly considered Mrs B's credit file and that her last default was some time before and that she declared an income of £17,000 with limited outgoings. So, I don't think the lending decision was irresponsible or unaffordable and think Mrs B was given a modest credit limit of £300.

There is no dispute here that NewDay accepts that it shouldn't have increased Mrs B's credit limit in March 2018 from £300 to £1,100. I find that was a significant increase at a time when there were clear unaffordability signs. I'm satisfied that NewDay has fairly accepted it made a mistake and acted fairly by refunding interest and charges. And I also think it tried to help Mrs B with her financial difficulties.

I have made clear that I'm satisfied that if the increased credit facility of a further £800 was unaffordable in March 2018 then it follows that to allow two new credit card accounts some months later must also be unaffordable. I also think by July 2018 Mrs B's financial position hadn't improved but got worse and that NewDay would have known that by looking at the first account. I don't think it matters that NewDay carried out checks on Mrs B's application in July 2018 as it ought reasonably to have simply looked at the first account as it did some time later and that ought to have shown any further lending would be irresponsible and unaffordable. And some months later Mrs B was unable to repay the borrowing which provides evidence for that.

Putting things right

I think that NewDay should refund the interest and charges on the accounts opened in July 2018 and remove any adverse information from Mrs B's credit file. It should put her back in the position she would have been in if the accounts had not been opened. And it should pay 8% simple interest on any refund if it's greater than the amount Mrs B owes NewDay on the second and third accounts. I can't fairly order NewDay to write off any account balance as it's clear Mrs B had the benefit of the money.

My final decision

My final decision is that I uphold this complaint in part and order NewDay Ltd to refund any interest and charges on the accounts opened in July 2018. If that refund is greater than the amount owed, then NewDay should pay 8% simple interest on that amount from the account opening until settlement and provide Mrs B with a certificate of tax deducted and paid to Her Majesty's Revenue and Customs. And any adverse information should be removed from Mrs B's credit file in respect of the two later accounts.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 16 June 2021.

David Singh
Ombudsman