

The complaint

Mr G complains that NewDay Ltd lent to him irresponsibly through two credit card accounts they gave him. He feels this led to him getting into a spiral of debt and having to go onto a debt management plan.

What happened

In November 2013 Mr G applied for a credit card from NewDay. This card had a credit limit of £250 initially, and this limit was increased in February 2014 to £600, and in September 2014 to £800. In November 2014, the account was cleared, and it was closed in February 2015.

Then in June 2015 Mr G applied for another credit card from NewDay. This application was agreed and a card with a £300 credit limit was provided. In November 2015, the credit limit was increased to £500. In February 2017, Mr G entered a debt management plan, and in June 2017 NewDay sold the debt on to another firm.

I issued a provisional decision on 5 March 2021. My provisional findings were as follows:

I will discuss each credit card separately to explain my thoughts and my feelings at this point. I have considered the CONC rules and regulations in place at the time, in forming my view on whether Mr G was treated fairly by NewDay.

The rules are not specific about what checks a lender must carry out but are very much focused on what is a "proportionate" check. This is about weighing up how much detail a lender should check, based on the customer circumstances and the amount of lending they are potentially going to offer to them.

First card

For the first credit card, I think it was fair and reasonable for NewDay to provide it to Mr G. NewDay have provided details of the checks they carried out, which included check's on income and his credit file.

Mr G's use of this card was slightly unusual. He took out numerous cash advances each month initially, but with a low credit limit, this meant he was paying down the balance during each month, which allowed him more credit for later in the month to draw out more cash advances. This generates cash advance fees that the customer must pay, but it seems likely that Mr G understood how the account worked, as he kept paying money off the card, to free up the credit limit again. It is also something that can be done sometimes in an attempt to boost your credit rating.

In four of the first six months, Mr G drew out more funds than his credit limit. Whilst he went over his limit on three occasions, he continued to pay the card back down under the limit most months. The statement balance in April 2014 was £757, over the £600 limit at the time, but the statement balance then dropped each month through to November 2015 when the balance was cleared.

With regards to the limit increases, I am satisfied that the first limit increase on this card was fair and reasonable. As the investigator confirmed, the first increase from £250 to £600 came when Mr G had not had any late payments or gone over his limit, and I have seen no data which NewDay checked which would have given any cause for concern.

The second limit increase from £600 to £800 is less clear, but on balance, I also feel this was fair and reasonable. On the one hand, Mr G had been over his limit in previous months. But by September 2014 he had brought the balance back under the limit for three consecutive months. I've seen no significant external credit data to which NewDay had access that would have prompted any concerns. Whilst the balance on the card stayed towards the credit limit, this was partly as the card was still being used regularly. In those three months, £252, £382 and £133 was paid off the balance.

Following the increase to a limit of £800 in September 2014, Mr G paid £858 off the balance in October 2014 to reduce the balance effectively to zero. I feel that this limit increase was fair, and the checks done were proportionate for a small increase in credit limit from £600 to £800. The following month, the credit card was cleared and not used again.

We have asked Mr G if he can recall any details of these cards, including how he cleared this balance, but unfortunately due to the passage of time he has not been able to provide us with any recollections. There is no other evidence suggesting it was refinanced elsewhere or similar. I am therefore not persuaded that there is evidence that this credit limit increase caused Mr G any financial difficulties.

Second card

For the second credit card, I am satisfied again that the checks carried out in June 2015 before offering the card were fair and proportionate. The card was offered with a limit of £300, and as the investigator said, Mr G immediately used the full amount of credit in the first month.

This card was used differently from the first one, with no evidence of cash advances. Instead, Mr G spent just over £300 on the card initially. It appears that this, and the interest charge after a month, pushed the card slightly over its limit, and the charges for going over the limit then left the card with a balance of £314 in August 2015. Mr G paid off slightly more to bring the balance back under the limit, and the card wasn't used again until November 2015.

In November 2015, a credit limit increase from £300 to £500 was provided. The investigator felt that this increase was irresponsible by NewDay Ltd. This was because Mr G had been over his credit limit in the initial months of using the card, and there were indicators on his credit file of a possible pay day loan taken in September 2015.

I am considering the proportionality of checks NewDay made when increasing the limit again. Mr G was offered an increase in limit from £300 to £500, so an extra £200 credit. The investigator had mentioned a pay day loan in the month prior to this final credit limit increase as having caused concern. I have analysed the customer credit data considered by NewDay and am satisfied that a proportionate check was carried out in the circumstances. I can't find a payday loan evident. The data does have an indication of one debt in arrears at this point, but as above, I do not think this makes the small credit limit increase in this instance irresponsible or inappropriate.

Mr G had shown in his use of the card that he understood how to use it and how the credit limit worked, and for a small limit increase, I do not feel that the information available to

NewDay Ltd should have prevented them from offering the increase. Small credit issues do not automatically prevent a customer from getting credit. In this instance, I am satisfied that for the credit limit offered, the checks and considerations that NewDay Ltd looked at were fair and proportionate.

There is no indication in the information available at this point that Mr G was in financial difficulties or had told NewDay Ltd that this was the case. At this stage, I am not minded to conclude that this credit limit increase was irresponsible by NewDay.

In summary, I am not currently persuaded that NewDay have done anything wrong, and at this stage, I will not be requiring NewDay to do anything further.

Both NewDay and Mr G now have until the due date set out above to send in any further information, should they wish to do so. I will then make my final decision.

My provisional decision

For the reasons I have explained, I don't plan to uphold Mr G's complaint. Mr G and NewDay Ltd should send me any more comments or evidence they would like me to see before 19 March 2021. After that, I will reconsider the case and make my final 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.

In response to the provisional decision, Mr G responded. He said he felt this decision would be unfair as he's still dealing with paying off the debts now and feels it was lent irresponsibly. He said he had been passing around different debt and it was more than likely paid off with another loan, and that he was gambling at the time and feels the lender could have recognised these patterns.

In response to these comments, I went back to NewDay and asked if they had been aware of any gambling issues at the time and could provide any contact notes if they had spoken to Mr G in this time period. They told me that they were not aware of any gambling issues, and the contact notes they provided have no details of contact with the customer back in this time period.

I referred to the investigation we had carried out. For the first card, we had asked Mr G if he recalled how he had paid it off, and what he had been using it for. He told us at the time that he couldn't recall how it was paid off, and said it was probably used for day to day spending. For the second card, I can see it was used for purchases, not cash advances or to transfer balances.

I'm not persuaded that the business was aware of any gambling or should have been aware of it. I can also find no evidence that the debt was being passed around between lenders or cards, or that the business should have been aware of this.

I understand Mr G's disappointment at my provisional decision and sympathise with his feeling that it's unfair that he's still paying off these debts. But I am satisfied that in this case, the business carried out proportionate checks before lending to him. I won't be asking NewDay to do anything more.

My final decision

I am not upholding this complaint.

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

Paul Cronin
Ombudsman