

The complaint

Ms R is unhappy that NewDay Ltd increased the credit limit on her account when such an increase was unaffordable for her.

What happened

In February 2019 Ms R opened a credit account with NewDay. The credit account had an initial credit limit of £450. Ms R has confirmed that this credit limit was affordable for her at that time.

In May 2019, NewDay sent a letter to Ms R advising that they were increasing her credit limit to £1,200. Ms R was experiencing issues with her mental health at that time and was not working because of this. This contributed to Ms R not being able to meet the required payments on the credit account, and her account was eventually defaulted by NewDay because of this.

Ms R wasn't happy that NewDay had increased her credit limit at a time when she was vulnerable and couldn't afford it, so she made a complaint. NewDay looked at Ms R's complaint, but they felt that that had acted appropriately and had conducted reasonable and proportionate affordability checks before offering the credit limit increase. So, they didn't uphold the complaint.

Ms R wasn't satisfied with NewDay's response, so she referred her complaint to this service. One of our investigators looked at this complaint. They felt that NewDay hadn't conducted reasonable and proportionate affordability checks before offering the credit limit to Ms R, so they recommended that the complaint be upheld in Ms R's favour on that basis.

NewDay didn't agree with the recommendation made by our investigator, so the matter was escalated to an ombudsman for a 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.

NewDay have explained that their business model includes monitoring their customers' account management and usage and offering credit limit increases to customers, where appropriate, based in part on how a customer has managed their account in the time period leading up to the offer, and on an affordability assessment at that time.

It isn't for this service to advise a business regarding their operational model or business policies, but it is within our remit to make a decision on whether those policies have been applied appropriately in specific instances and whether or not they have led to a fair outcome for the customer involved.

In this instance, it's immediately striking that NewDay offered a credit limit increase to Ms R only three months after the credit account was first opened, and that the credit limit increase was significant, rising from £450 to £1200 – an increase of 166%.

What this service would expect here is that NewDay would be able to demonstrate not only that Ms R could afford the credit limit increase by reference to her wider circumstances at that time, but also that her account management in the preceding months was such that such a credit limit increase offer was justified. And, ultimately, I'm not satisfied that NewDay have met either of these criteria in this instance.

NewDay have explained that they conducted an affordability assessment of Ms R's financial circumstances and that this assessment confirmed that Ms R could afford the higher credit limit being offered. But this affordability assessment was based entirely on information taken from third party sources, such as credit reference agencies, and didn't involve contacting Ms R directly to confirm what her current financial status was with herself.

Had it been the case that NewDay had contacted Ms R directly, it's likely that their decision to offer the credit limit increase to Ms R may have changed. And I say this because Ms R wasn't working at that time, having been signed off from work because she was struggling with mental health issues, and Ms R has provided payslips from that period which demonstrate the reduced income that she was receiving, and which confirm that she was in receipt of statutory sick pay.

NewDay have argued that there was no requirement for them to contact Ms R directly to conduct an affordability assessment, and have quoted the following clause from the Financial Conduct Authority (FCA) Consumer Credit (CONC) Sourcebook:

CONC 5.2A.7(R)

A firm must base its creditworthiness assessment on sufficient information:

- (1) Of which it is aware at the time that the creditworthiness assessment is carried out.*
- (2) Obtained, where appropriate, from the customer and where necessary from a credit reference agency and the information must enable the firm to carry out a reasonable creditworthiness assessment.*

I'm in agreement with NewDay that this clause is of relevance here, but I'm not convinced that the above clause legitimises NewDay to conduct affordability assessments without contacting the customer to obtain the relevant information.

I say this because the clause clearly states that the information should be obtained, *where appropriate*, from the customer, and, *where necessary*, from a credit reference agency. And I don't feel that it was necessary to use a credit reference agency to obtain this information, and rather that it was appropriate to obtain such information, if possible, from the customer.

And, as explained above, had NewDay contacted Ms R here, as I feel was appropriate, it's likely that they would have learned of the issues that Ms R was facing at that time and that their decision to offer a credit limit increase to Ms R may well have been impacted as a result.

It also must be noted that in the short time that Ms R had held the account – which was the time period for which she was being assessed by NewDay - she had exceeded the credit limit and taken a cash advance from the card, with the cash advance being taken very soon after the credit account had been opened.

It's clear to me that Ms R's management of her account here should have given NewDay cause for concern, at least to the degree where they should have widened the scope of their affordability checks to ensure that they weren't in danger of lending irresponsibly.

All of which means that it's difficult not to conclude that NewDay shouldn't have offered the credit limit increase to Ms R that they did here. And I'm satisfied that an unfair outcome – Ms R being offered a credit limit increase that she couldn't reasonably afford – took place as a result.

It follows then that I will be upholding this complaint in Ms R's favour on this basis. I realise that this won't be the outcome that NewDay were wanting here, but I hope that they can understand, based on everything I have explained above, why I have reached the final decision that I have.

Putting things right

NewDay must recall or repurchase Ms R's account from the company with which it currently resides.

NewDay must reimburse all interest, fees and charges incurred on the account from the time of the credit limit increase to date.

If this results in a credit balance in Ms R's favour, NewDay must pay this balance to Ms R along with 8% simple interest calculated from the dates of the interest or fees being reimbursed.

If an outstanding balance remains on the account, NewDay must arrange a suitable payment arrangement with Ms R based on her income and expenditure at this time.

If Ms R's account is to remain operational, NewDay must reduce the credit limit back to £450 and work with Ms R on the basis explained above to bring her balance within that limit, if it's the case that the outstanding balance on the account is more than this limit.

NewDay must remove all adverse information recorded on Ms R's credit file relating to this account following the credit limit increase in May 2019.

My final decision

My final decision is that I uphold this complaint against NewDay Ltd on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 26 May 2021.

Paul Cooper
Ombudsman