

The complaint

Mr A complains New Day Ltd trading as Marbles (NewDay) lent to him irresponsibly.

What happened

Mr A applied for a credit card with NewDay and it agreed a relatively small credit limit. Over a short space of time NewDay increased Mr A's credit limit to close to five times the original amount. NewDay then agreed a second card for Mr A.

Mr A complained to NewDay. He was gambling at the time of the application and up until fairly recently, but he doesn't think NewDay would have seen this. But Mr A feels NewDay lent to him when it should have been clear he was struggling with his finances.

NewDay responded to say it's a second chance lender, one specialising in credit for people with poor lending history. NewDay said it offered Mr A a low credit limit when he first applied and because Mr A used his card responsibly it increased his limit several times.

Mr A still felt NewDay hadn't been fair when it agreed his second card, so he brought his complaint to this service. An investigator looked into things and felt Mr A's complaint should be upheld in part.

The investigator thought the initial credit card and the next two increases had been fair. But they felt the last increase, and the second card, had been lent irresponsibly. The investigator thought NewDay should have done more checks, including asking for bank statements.

If NewDay had done this, the investigator thought it wouldn't have increased Mr A's credit limit the last time or offered him a new card.

The investigator thought NewDay should refund some specific charges and interest and remove any adverse data.

Mr A accepted this assessment. NewDay said it didn't believe it had made any mistakes when it lent to Mr A. NewDay said Mr A ran his first card well, and paid more than the minimum payment each month.

NewDay also said it didn't ask Mr A for his bank statements as it never does this. NewDay felt the checks it had carried out were sufficient to show Mr A could afford the credit. NewDay asked for an ombudsman to decide things.

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.

When a business agrees to lend it should take steps to ensure it's lending in a responsible way. NewDay was lending to Mr A under an open ended agreement, so it also needed to ensure Mr A was able to make repayments to pay off the lending in a reasonable period.

NewDay opened Mr A's credit card in August 2015 with a limit of £450. This limit was increased to £850 in November 2015, £1,100 in April 2016 and £1,900 in September 2016. A second card, with a limit of £300 was opened in March 2018.

At the time NewDay originally lent to Mr A I think it took steps to ensure the lending was responsible. Mr A was a new customer, but had declared an income sufficient to service the initial limit and his credit file didn't show any defaulted accounts or accounts in arrears.

NewDay increased Mr A's limit by comparatively small amounts until it reached £1,100. Mr A hadn't exceeded the limit and was generally managing his credit card well. I don't think there was anything in the way Mr A ran his account that would mean NewDay should have taken further information from Mr A to see what his financial situation was.

But the last credit limit increase was large, almost doubling his limit from £1,100 to £1,900 and was very soon after the last increase. And Mr A hadn't managed the most recent limit increase well.

Mr A had immediately used almost all the new credit he was given and then exceeded his new, £1,100, credit limit. Mr A had also made cash advances throughout the time he'd held the card. And Mr A hadn't paid much more than the minimum payment for the duration of the agreement and his debt to NewDay had steadily increased.

The UK Card Association released guidance in 2011 and this lists risk indicators for unsolicited credit limit increases. These risk indicators include:

- a significant increase in overall outstanding balances over time
- instances of exceeding credit limits
- making frequent use of cash advances

The guidance says, in isolation, these indicators may not be a sign of risk. But I think NewDay was aware of all the indicators above, yet it still increased Mr A's credit limit.

I think NewDay should have carried out more checks around Mr A's ability to repay his debt in a reasonable time. And, although the checks expected of NewDay aren't prescriptive, I think it would have been reasonable for NewDay to ask Mr A for his bank statements.

NewDay says it's never requested bank statements from its borrowers. This doesn't mean NewDay can't ask for statements. NewDay has to ensure Mr A was able to repay his debt in a reasonable period and asking for bank statements is a fair way of doing this.

Had NewDay asked for Mr A's bank statements it would have seen an account being used up to its overdraft limit every month. NewDay would also have seen outgoings that weren't on Mr A's credit file as well as several short-term lending credits and repayments.

Looking at Mr A's statements around the time of the last credit limit increase it's clear he was under financial pressure.

I think NewDay had reason to carry out further checks before the last credit increase and failed to do so. I think those reasonable checks would have shown that Mr A had a worsening financial position and shouldn't be offered further credit limit increases.

And since I don't think NewDay should have increased Mr A's limit in September 2016 I don't think it should have agreed a new card in March 2018.

Putting things right

Mr A shouldn't have to pay interest and charges on the amount I think NewDay irresponsibly lent. This isn't the whole amount of Mr A's first credit card limit, just the last increase of £800. It's fair Mr A repays the amount he borrowed, he's had benefit of the money.

Because I think NewDay should have left Mr A's credit limit at £1,100 any balance above this amount should be free of interest and charges.

For the second card, I don't believe Mr A should pay any of the interest or charges NewDay applied. Mr A should only have to repay what he borrowed on the card.

And because I think NewDay lent irresponsibly I don't think it's fair to report adverse information to credit reference agencies after it made the wrong decision to lend.

My final decision

My final decision is I uphold Mr A's complaint and NewDay Ltd trading as Marbles must:

- refund any interest on balances over £1,100 on Mr A's first credit card
- if this refund creates a credit balance, pay 8% simple interest from the date the credit balance arose to the date of settlement
- remove any adverse credit file entries for Mr A's first credit card from September 2016, the date of the last credit limit increase
- refund all interest and charges applied to Mr A's second credit card
- if this refund creates a credit balance, pay 8% simple interest from the date the credit balance arose to the date of settlement
- remove any adverse credit file entries for Mr A's second card

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 19 October 2021.

Chris Russ
Ombudsman