

The complaint

Miss W is unhappy that NewDay Ltd increased the credit limit on her account when such a credit limit increase wasn't affordable for her.

What happened

Miss W held a credit account with NewDay with a credit limit of £300. In February 2020, NewDay wrote to Miss W to advise that they were increasing her credit limit to £1,550 and that unless Miss W contacted NewDay to decline the credit limit increase, the new credit limit would be available to Miss W from 30 March 2020.

Miss W didn't contact NewDay and the credit limit on her account was increased to £1,550. Miss W subsequently got into difficulty with the payments due on her credit account, with no payments being made toward the account after April 2020, and the account was defaulted by NewDay in February 2021.

Miss W wasn't happy about what had happened, so she made a complaint. NewDay looked at Miss W's complaint, but they felt that they had conducted checks into Miss W's financial position at the time that the credit limit increase had been offered to her, and that there was nothing resulting from those checks that suggested that the credit limit increase wouldn't have been affordable for Miss W at that time. So, they didn't uphold Miss W's complaint.

Miss W 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 should have paid greater attention to the historical management of Miss W's account, which they felt demonstrated that Miss W had struggled to maintain the account with a £300 credit limit.

Because of this, our investigator felt that NewDay hadn't conducted reasonable and proportionate customer focussed checks into Miss W's financial position before they'd offered her the credit limit increase, and that if they had conducted such checks, it would have been apparent to NewDay that Miss W wouldn't have been able to afford the credit limit increase being offered.

So, our investigator recommended that the complaint be upheld in Miss W's favour, and that NewDay should reimburse all interest, fees, and charges accrued after the credit limit increase back to Miss W's account and remove the default from Miss W's credit file. Our investigator also recommended that NewDay should make a payment of £100 to Miss W to compensate her for the trouble and upset this matter had caused.

NewDay didn't agree with the recommendations put forward 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.

It's for a business to decide whether it will offer credit to a customer, and if so, how much

and on what terms. What this service would expect would be that the business would undertake reasonable and proportionate customer focussed checks to ascertain whether any credit, or credit limit increase, being offered to that customer is affordable for that customer at that time.

NewDay believe that they did that here. Before they offered the credit limit increase to Miss W, they reviewed the historical usage of Miss W's account and obtained information from a credit reference agency to help them gain an understanding of Miss W's wider financial position. And NewDay maintain that there was nothing resulting from these checks that suggested to them that Miss W might not be able to afford the credit limit increase that was being offered to her.

However, having reviewed all the information available to me on this complaint, I find it difficult not to conclude that NewDay's assessment of Miss W's financial position at that time wasn't customer focussed and didn't pay enough attention to the difficulties in managing her account with a £300 credit limit that Miss W had previously demonstrated.

One reason I say this is because NewDay offered the credit limit increase to Miss W in February 2020. However, In October 2019, Miss W exceeded the credit limit on her account and incurred an over limit fee because of this. Furthermore, in January 2020, Miss W used the credit account for cash withdrawals, which can be an indicator that a person is experiencing financial difficulty.

These events followed a period shortly after the credit account was opened where Miss W struggled to stay within the £300 credit limit on her account and incurred multiple over limit fees and used her card for cash withdrawals close to the credit limit. And, while Miss W was able to bring her account back within contractual terms over a year before the credit limit was offered, I feel that these historical issues further demonstrate that Miss W's circumstances at those times were such that any credit limit increase offered while Miss W's circumstances remained the same might not be affordable for.

As such, I feel that NewDay should have contacted Miss W directly to update their understanding of her personal circumstances before offering a credit limit increase to her. And this is especially the case given that the credit limit increase that NewDay offered to Miss W was an increase of over five times Miss W's previous credit limit of £300.

NewDay have stated that the obtained information from a credit reference agency which confirmed to them that Miss W could afford the credit limit being offered. But the responsibility for ensuring the accuracy of this information resides with NewDay, and it remains my position that, given Miss W's previous struggles with her account, NewDay should have contacted Miss W themselves to confirm Miss W's financial position before offering any further credit, and that if they had, NewDay should, in all likelihood, have reached the conclusion that the credit limit being offered to Miss W might be unaffordable for her, such that a credit limit increase of that size shouldn't have been offered.

I realise that this might not be the outcome that NewDay were wanting here, but it follows from the above that I'll be upholding this complaint in Miss W's favour and instructing NewDay to undertake corrective action accordingly. I hope that NewDay can understand, given what I've explained, why I've made the final decision that I have.

Putting things right

NewDay must reimburse to Miss W's account all interest, charges, and fees accrued or incurred on balances over £300 following the credit limit increase.

If these reimbursements result in the account having a credit balance in Miss W's favour, NewDay must pay this balance to Miss W along with 8% interest – calculated from the date that Miss W made each overpayment until the date it's reimbursed to her.

NewDay must also remove all adverse information relating to Miss W's account following the credit limit increase from Miss W's credit file.

Finally, NewDay must make a payment of £100 to Miss W to compensate her for any distress or inconvenience this matter might have caused.

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 Miss W to accept or reject my decision before 25 August 2021.

Paul Cooper
Ombudsman