

The complaint

Ms T complains that NewDay Ltd irresponsibly allowed her to open a credit card account which was unaffordable and also increased the credit limits.

What happened

Ms T says she shouldn't have been allowed to open the NewDay credit card account in 2017 and it didn't carry out appropriate checks on her application. She says her bank account was overdrawn and had defaults registered on her credit file as well as late payments on other accounts. Ms T says she was in about £4,000 of debt and would like all interest and charges refunded as well as 8% interest on that amount. She would also like the default that NewDay has registered to be removed from her credit file as well as other adverse information.

NewDay says the account was opened in May 2017 and Ms T declared an income of just under £15,000 a year. It says it carried out checks on her credit file which showed the last default some 27 months before and no other accounts in arrears. NewDay says it calculated Ms T's debt at the time at about £8,500 and increased her credit limit from £600 to £1,200 before later increasing to £1,750. It accepts the last increase in August 2018 shouldn't have taken place and has refunded interest and charges.

Ms T brought her complaint to us and our investigator upheld it in part. The investigator thought NewDay carried out appropriate checks on the application but didn't think the credit limit increase in December 2017 from £600 to £1,200 appropriate based on Ms T's account management. He recommended NewDay refund interest and charges from that date and pay 8% annual interest on that amount as well as rectify Ms T's credit file.

NewDay doesn't accept that view and says Ms T's account management was within its risk appetite and says it will not pay interest or amend her credit file.

Ms T accepts the investigator's view but says she was thousands in debt at the time and had payday lending.

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 overall view that I uphold this complaint in part.

Lenders and credit providers should carry out reasonable and proportionate checks on any lending or credit facility application. Those checks will of course vary depending on the type and amount of such lending. This was an application by Ms T for a credit facility rather than for example a loan or mortgage and so I wouldn't have expected NewDay's checks to have been as detailed as for those types of lending.

I have looked carefully at NewDay's records and can see that Ms T told it she was in employment earning just under £15,000 and that it calculated her debt at the time at about £8,500. I can also see that NewDay checked Ms T's credit file and considered that her last

default was some years before and that there wasn't any recent adverse information recorded on it. So, I'm satisfied that NewDay did carry out reasonable and proportionate checks on Ms T's applications and that the lending was on the face of it affordable and so not irresponsible. I also think NewDay approved a modest credit limit of £600. I appreciate Ms T says NewDay didn't carry out such checks, but I'm satisfied they were carried out and that NewDay wasn't obliged to check Ms T's bank statements. I have not seen any evidence of significant payday lending as Ms T suggests.

NewDay ought to carry out similar checks on any credit limit increases and I don't think the test of affordability is its appetite for risk as it says. But that it ought to consider Ms T's account management in the months leading up to the increase in December 2017 as well as carry out those other checks.

I have looked carefully at Ms T's account statements from the lending decision until the first increase in December 2017. I'm satisfied that Ms T's account balance throughout was either just below or over the £600 credit limit and that she incurred a number of default charges for late payments or over limit charges. I'm also satisfied that except for one month she paid near enough to the minimum required payment. I appreciate NewDay says other external factors hadn't changed but I'm satisfied that Ms T's account management ought to have caused concern and that the credit limit increase was not affordable based on the information NewDay had.

I think it's clear that following the first increase Ms T spent the new available amount immediately and continued to badly manage her account by incurring various charges. I think that provides additional evidence that the decision to increase the credit limit was not appropriately considered. And if NewDay accepts that the second credit limit increase was unaffordable then it's difficult to see how the first was affordable or that the circumstances are that different.

Putting things right

I'm satisfied Ms T has had the benefit of the money and so it would be unfair for NewDay to write off the balance. But it should refund charges and interest applied after the December 2017 credit limit increase and put Ms T back in the position she would have been in were it not for the credit limit increases. Any refund should be deducted from the amount Ms T owes and if there is a balance owed to Ms T, which I think unlikely, then NewDay should pay 8% simple interest in the usual way. If there is such a refund, then NewDay should provide Ms T with a certificate showing any taxation deducted.

NewDay should remove any adverse information registered on Ms T's credit file caused by the increases to the credit limit. I accept that will not be an easy calculation as it may well have been the case that Ms T would have defaulted on a credit limit of £600 but NewDay ought reasonably attempt to calculate the position were it not for the increases and may consider that registering late payments rather than a default appropriate. NewDay should reach an agreement with Ms T to repay the balance if appropriate interest free.

My final decision

My final decision is that I uphold this complaint in part and order NewDay Ltd to refund charges and interest applied over and above the credit limit of £600 and deduct that amount from the outstanding balance. Any overpayment refund if due to Ms T, should have simple interest of 8% added to it and any adverse information recorded on her credit file caused by the credit limit increases should be removed.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or

reject my decision before 7 September 2021.

David Singh
Ombudsman