

The complaint

Mr C complains that NewDay Ltd irresponsibly allowed him to open two credit card accounts and also increased the credit limits which he says was unaffordable.

What happened

Mr C opened two NewDay credit card accounts which I will call “M” and “A”. He says the accounts were unaffordable from the start and it ought to have been clear to NewDay that he was in financial difficulties. Mr C says the lending was irresponsible and that NewDay shouldn’t have increased the credit limits on the accounts. He says NewDay’s actions caused him stress and would like compensation for what’s taken place.

NewDay says the M account was opened in 2017 and Mr C declared an income of £30,000 a year with an additional household income of £6,000 a year. It says there wasn’t any recent adverse information on Mr C’s credit file and that he had limited other debts. NewDay says it carried out appropriate checks on both applications but accepts it shouldn’t have increased the credit limit on the A account.

Mr C brought his complaint to us and our investigator upheld the complaint in part. The investigator thought Newday had carried out appropriate checks on the M application and didn’t think there was any recent adverse information on Mr C’s credit file. But the investigator thought that by June 2018 there were signs of unaffordability in that Mr C was over the credit limit and making minimal payments and so NewDay shouldn’t have increased the credit limit in October 2018. The investigator thought that NewDay ought to have known that when it approved the A application, and so thought that A account lending was unaffordable. The investigator recommended interest and charges be refunded on the A account and on the M account from October 2018 over and above the then credit limit of £1,200.

Mr C hasn’t replied to the investigator’s view.

NewDay accepts part of the investigator’s view but doesn’t accept it made a mistake by increasing the M credit limit in October 2018 and says it wouldn’t have known about Mr C’s income reduction at that stage.

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 a similar overall view as the investigator.

Lenders and credit providers should carry out reasonable and proportionate checks on any lending or credit application. Those checks will of course vary depending on the type and amount of the lending. And I wouldn’t have expected NewDay’s checks to have been as detailed here for a credit facility rather than for example a loan or mortgage.

I have looked at NewDay’s records and can see that it did carry out checks on Mr C’s

application and that he declared a household income of £36,000 a year. I can also see that NewDay checked Mr C's debt which I think was minimal and that it also checked his credit file which I don't think contained any recent adverse information. So, I'm satisfied NewDay carried out reasonable and proportionate checks on Mr C's M application and that NewDay didn't irresponsibly approve the M application. I'm satisfied the lending was affordable for that account and that NewDay approved what I think was a modest credit limit of £300.

I'm also satisfied NewDay carried out appropriate checks on the first credit limit increase and that it was reasonably entitled to consider Mr C's appropriate management of his account.

I have looked carefully at Mr C's M account statements in 2018. And I can see that from about July 2018 Mr C was making relatively small monthly repayments and had increased his spending following the credit limit increase shortly before. I can also see there was an over limit fee in July 2018 as well as a late fee in September 2018. So, I think NewDay ought reasonably to have considered carefully the credit limit offer in October 2018 and carried out further checks before offering the limit increase. I'm satisfied that there were obvious signs of unaffordability at that stage and further checks would have shown a change in Mr C's circumstances. I don't think the increase was affordable at that time and further checks would have shown that.

It follows that as I don't think NewDay acted fairly by increasing the credit limit on the M account in October 2018 then I also think the decision to allow the A account to be opened was irresponsible and the account was unaffordable from the start.

I'm satisfied that Mr C has had the benefit of the lending and so it would be unfair to order NewDay to write off the balances. I also don't think in the circumstances this complaint justifies compensation as I'm satisfied the original lending decision and first credit limit increase was affordable.

Putting things right

NewDay should refund all interest and charges on the A account and deduct that amount from the balance owed by Mr C. NewDay should refund all interest and charges on the M account charged following the credit limit increase in October 2018 on the balance over the existing credit limit at the time of £1,200.

I don't think it likely that any refund will result in a payment back to Mr C as I think it likely any refund would be less than the balances he owes. But if there is an overpayment due to him then we would normally order that interest be paid at 8% and also order that he be given a certificate confirming any tax deducted from that amount. I make clear to NewDay that if there is such an overpayment due then it should pay interest as set out. NewDay should also remove any adverse information from Mr C's credit file in respect of the A account.

My final decision

My final decision is that I uphold this complaint in part. I order NewDay Ltd to refund any interest and charges on the A account and remove any information about it from Mr C's credit file. I also order NewDay to refund any interest and charges on the M account from October 2018 incurred over and above the existing credit limit at the time of £1,200. And it should pay interest on any refund at 8% simple interest if there is an overpayment due to Mr C.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 1 September 2021.

David Singh
Ombudsman