

The complaint

Mr G complains that by NewDay Ltd increasing his credit limit on his Debenhams card meant the repayments were unaffordable for him.

What happened

Mr G had two credit cards with NewDay – a Fluid credit card and a Debenhams credit card. In November 2019, NewDay lowered the credit limit on Mr G's Fluid card from £900 to £800 due to his credit score.

In January 2020 NewDay increased Mr G's credit limit on his Debenhams card from £500 to £1,500 due to his credit score increasing since November 2019. Mr G complained to NewDay as he said this increase was not affordable to him and this caused him financial difficulty.

NewDay did not uphold Mr G's complaint. They said that they had carried out an affordability assessment prior to increasing his credit limit, including looking at information they already held on Mr G and they had checked information from credit reference agencies. NewDay said that Mr G had not informed them previously about his financial difficulties and due to Mr G's concerns about affordability they were closing both his cards for further spending, but his accounts would stay open for payments only. Mr G brought his complaint to our service.

Our investigator upheld Mr G's complaint. He said Mr G was often close to his credit limit or at times over his credit limit. He also said it was irresponsible that the increase to his Debenhams card was three times the original credit limit, without any compelling evidence of why the limit was increased. Our investigator said that NewDay should rework Mr G's Debenhams account to ensure that from January 2020 interest is only charged on the first £500 outstanding to reflect the fact that no further credit limit increases should have been provided. They should remove any late payment or over limit fees from January 2020, the payments Mr G made from January 2020 should then be deducted from the reworked account balance. Any extra that was paid should be treated as overpayments and refunded to Mr G with interest added at 8% per year simple on any overpayments, if they were any, from the date they were made to the date of settlement. Our investigator also said NewDay should pay Mr G £100 for the trouble and upset caused by increasing his Debenhams credit limit.

NewDay asked for the complaint to be reviewed by an Ombudsman. In summary they said they performed appropriate and proportionate checks that justified the credit limit increase. They didn't think it was fair to give consideration to how the account was managed thereafter as it isn't something they could have predicted and is something that is also completely outside of their control. NewDay said the way in which the account was managed thereafter when assessing this decision was unrealistic because they cannot and could never have anticipated the way in which the account would be utilised or managed.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This is set out below:

“I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

I’ve decided to make a provisional decision here as I’m providing further information and this will give both parties a chance to respond to what I’ve provisionally decided.

Before agreeing to increase the credit available to Mr G, NewDay needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There’s no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower’s income and credit history, the amount and frequency of repayments, as well the consumer’s personal circumstances.

In isolation the credit limit increase that NewDay offered to Mr G was proportionate compared with his income. But there are other factors which persuade me that further checks should’ve been made to ensure the credit was affordable and sustainable for him and I’ll explain these below.

I’ve looked at what checks NewDay said they did prior to increasing the credit card limit on his Debenhams account. They used information from credit agencies and saw that Mr G had several active accounts/cards. And while he didn’t have an active payday loan at the time the credit limit was increased, NewDay’s data shows he had an active payday loan the month before the credit limit increase. So, as Mr G took out a payday loan shortly before his credit limit was increased on his Debenhams card, this could indicate that the credit limit increase might not be affordable or sustainable for him in the longer term as he did not have enough disposable income to meet his outgoings.

As NewDay have said, an active payday loan would not mean that a credit limit increase wouldn’t be suitable. But if they had asked Mr G for his outgoings as part of a proportionate check where he already had several unsecured borrowings, then I’m persuaded that he would have mentioned this, and this would have been one reason to prompt them to do further checks based on the repayment commitment for a payday loan. Mr G had taken out another two unsecured loans since he was accepted originally for the Debenhams credit card and therefore his outgoings wouldn’t have been the same as when he originally gave NewDay his income and expenditure prior to being accepted for the Debenhams card. I think this should have prompted NewDay to conduct further proportionate checks especially as they were trebling his credit limit.

Mr G hadn’t had any defaults or County Court Judgments prior to the credit limit increase. This would suggest that Mr G hadn’t had any major issues in maintaining his payments up to the point of the credit limit increase. But it also does not show the full picture here and I think it’s that which was missing from the assessment. I’m persuaded that it would have been proportionate to investigate the unsecured debt Mr G had in more detail, along with his outgoings prior to increasing his credit limit. I say this because if these checks had been made then it would show that Mr G had taken on multiple pay day loans in the previous 12 months and two new unsecured loans since being accepted for his Debenhams credit card, which may suggest that Mr G was using unsecured borrowing to meet his outgoings. Our investigator had previously explained that Mr G was often making minimum payments to his NewDay cards prior to the credit limit increase and was often using more than 90% of his credit limit which may suggest that he would be unable to sustain further borrowing.

So I asked Mr G how he was managing to meet his outgoings around the time his credit limit was increased. He said he was borrowing from any source he could – family, friends and companies. This led me to ask for his bank statements so I could see the extent of his borrowing. This is something that I’m persuaded NewDay would have wanted to see if they

asked for details of his outgoings prior to the credit limit increase as his outgoings should give rise to a concern that the credit limit increase would be unaffordable and unsustainable for Mr G.

His December 2019 transactions show in the month before the credit limit increase was offered, that Mr G had five income payments from credit companies totalling £740.82, a payment of £1,500 with a reference of loan – which wouldn't have shown on his credit file as the payment was from an individual, £700 paid in three instalments that month from another individual which was not his partner. In the prior three months to his credit limit being increased he was only in credit on his bank account for a total of three days – after he borrowed money and was often £2000-£3000 overdrawn on his bank account. His October and November 2019 transactions show a similar pattern with multiple loans being paid into his bank account.

So I'm satisfied from the information I've seen here that Mr G could not afford his commitments as he did not have any disposable income to do so and when NewDay increased his credit card limit this also became unaffordable for Mr G and will have resulted in trouble and upset for Mr G when he would need to keep borrowing from multiple sources to meet his increased minimum payments. If NewDay had asked for details of his outgoings as part of a proportionate check when trebling his credit limit on his Debenhams credit card then I'm persuaded they would have seen the increased payments would not have been sustainable or affordable and I'm satisfied they shouldn't have increased the credit limit for someone who was clearly struggling to meet his commitments and borrowing from a number of sources.

In order to put things right, I intend to ask NewDay to rework Mr G's Debenhams account to ensure that from January 2020 interest is only charged on the first £500 outstanding balance to reflect the fact that no further credit limit increases should have been provided. NewDay should remove any late payment or over limit fees from January 2020 and the payments Mr G made from January 2020 should then be deducted from the reworked account balance. Any extra that was paid should be treated as overpayments and refunded to Mr G with interest added at 8% per year simple on any overpayments, if there were any, from the date they were made to the date of settlement. I also intend to ask NewDay to pay Mr G £100 for the trouble and upset caused by increasing his Debenhams credit limit."

I invited both parties to let me have any further submissions before I reached a final decision. Mr G accepted the provisional decision. NewDay did not accept the provisional decision and made a number of points. In summary they said that they do not obtain evidence of income and expenditure or bank statements from the customer as they are not required to do so and this is not an industry standard as they follow the rules in the Financial Conduct Authority's Consumer Credit Sourcebook. They also said payday lending would not be a sole reason to prevent them from increasing a credit limit and said that they would have no way of knowing that Mr G was borrowing money to meet his financial commitments. NewDay also referred me to a different decision that an Ombudsman made for a different customer.

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.

I've thought about what NewDay have said regarding them not requiring evidence of income and expenditure or bank statements from the customer as they are not required to do so as they follow the rules in the Financial Conduct Authority's Consumer Credit Sourcebook. As I mentioned in my provisional decision, Mr G had an active payday loan the month before the

credit limit increase. This could indicate that the credit limit increase might not be affordable or sustainable for him in the longer term as he may not have enough disposable income to meet his outgoings.

In addition, Mr G had taken on multiple pay day loans in the previous 12 months and two new unsecured loans since being accepted for his Debenhams credit card, which may suggest that Mr G was using unsecured borrowing to meet his outgoings. As a result of the unsecured borrowing, his outgoings wouldn't have been the same as when he originally gave NewDay his income and expenditure prior to being accepted for the Debenhams card.

So I'm persuaded it would be a proportionate check for NewDay to make additional checks on Mr G's financial situation. This information can be from Mr G himself. CONC 5.2A.7 states:

"A firm must base its creditworthiness assessment on sufficient information:

- (1) Of which it is aware at the time the creditworthiness assessment is carried out;*
- (2) Obtained, where appropriate from the customer...."*

So I'm persuaded that if NewDay obtained details of Mr G's outgoings as part of a proportionate check, based on the information they had obtained from credit reference agencies then they would have seen the increased payments as a result of increasing his credit limit would not have been sustainable or affordable and I'm satisfied they shouldn't have increased the credit limit for someone who was clearly struggling to meet his commitments and borrowing from a number of sources.

I've also considered what NewDay have said regarding payday lending would not be a sole reason to prevent them from increasing a credit limit and said that they would have no way of knowing that Mr G was borrowing money to meet his financial commitments. But as I mentioned in my provisional decision:

"As NewDay have said, an active payday loan would not mean that a credit limit increase wouldn't be suitable. But if they had asked Mr G for his outgoings as part of a proportionate check where he already had several unsecured borrowings, then I'm persuaded that he would have mentioned this, and this would have been one reason to prompt them to do further checks based on the repayment commitment for a payday loan. Mr G had taken out another two unsecured loans since he was accepted originally for the Debenhams credit card and therefore his outgoings wouldn't have been the same as when he originally gave NewDay his income and expenditure prior to being accepted for the Debenhams card. I think this should have prompted NewDay to conduct further proportionate checks especially as they were trebling his credit limit."

NewDay referred me to another decision from a different Ombudsman regarding a different customer. I have noted this. But the individual circumstances of that complaint are different to the individual circumstances of this complaint and therefore it is not fair to apply the same outcome to Mr G's complaint. My review is based on the facts of this individual case.

In summary, NewDay's response hasn't changed my view and my final decision and reasoning remains the same as in my provisional decision. I know NewDay will be disappointed with the decision, but I hope they understand my reasons.

Putting things right

In my provisional decision I said I intended to ask NewDay to rework Mr G's Debenhams account to ensure that from January 2020 interest is only charged on the first £500 outstanding balance to reflect the fact that no further credit limit increases should have been provided. NewDay should remove any late payment or over limit fees from January 2020 and the payments Mr G made from January 2020 should then be deducted from the reworked account balance. Any extra that was paid should be treated as overpayments and refunded to Mr G with interest added at 8% per year simple on any overpayments, if there were any, from the date they were made to the date of settlement. I also intend to ask NewDay to pay Mr G £100 for the trouble and upset caused by increasing his Debenhams credit limit. I'm still satisfied this is a fair outcome for the reasons given previously.

My final decision

I uphold the complaint. NewDay Ltd should:

Rework Mr G's Debenhams account to ensure that from January 2020 interest is only charged on the first £500 outstanding balance to reflect the fact that no further credit limit increases should have been provided;

NewDay Ltd should remove any late payment or over limit fees from January 2020 and the payments Mr G made from January 2020 should then be deducted from the reworked account balance;

Any extra that was paid should be treated as overpayments and refunded to Mr G with interest added at 8% per year simple on any overpayments, if there were any, from the date they were made to the date of settlement;

NewDay Ltd should pay Mr G £100 for the trouble and upset caused by increasing his Debenhams credit limit.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 30 August 2021.

Gregory Sloanes
Ombudsman