

The complaint

Mr F complains that NewDay Ltd irresponsibly allowed him to open three credit card accounts which were unaffordable and also increased the credit limit on one of the accounts.

What happened

Mr F says he opened three NewDay credit card accounts all of which were unaffordable. He says at the time his credit score was poor and he had debts of £8,000 as well as a number of defaults registered on his credit file. Mr F says the lending was irresponsible and would like interest and charges refunded and 8% interest paid on that refund.

NewDay says Mr F opened three accounts which I will call “1,2 and 3”. It says account 1 was opened in 2017 and Mr F told it he was in employment earning over £17,000 a year with additional household income of £18,000 a year. It also says appropriate checks were carried out which showed Mr F’s debt at the time was about £1,700 and that he didn’t have any recent adverse information on his credit file. NewDay says it offered a relatively modest credit limit of £300 which was increased to £1,200 with appropriate checks carried out.

NewDay says account 2 was opened in May 2019 and that it again carried out appropriate checks. It says Mr F’s income had increased and took into account his appropriate management of account 1. NewDay approved a credit limit of £600 and says the accounts were managed appropriately until about March 2020.

NewDay says account 3 was opened in March 2020 and says Mr F told it his and his household income had increased. It says Mr F’s overall debt had increased to about just under £10,000 and carried out appropriate checks.

Mr F brought his complaint to us and our investigator thought NewDay had carried out appropriate checks on accounts 1 and 2 as well as on the credit limit increases on account 1. The investigator thought the defaults on Mr F’s credit file were some time before the first application and that the credit limits were relatively modest.

The investigator thought NewDay should not have approved account 3 and thought Mr F’s debt position had changed. The investigator thought Mr F had taken out payday loans at the end of 2019 and by that stage had a number of other credit accounts as well as loans. He recommended all interest and charges be refunded on that account.

NewDay doesn’t accept that view and says it doesn’t require income and expenditure details and says Mr F met its eligibility criteria.

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 and for similar reasons.

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

I have looked carefully at NewDay's records and can see that for account 1 Mr F declared a total household income of over £35,000 with limited debts. I appreciate Mr F had defaults registered on his credit file, but I'm satisfied they were some time before the application here. I'm satisfied NewDay checked Mr F's application and carried out checks on his credit file which didn't reveal any adverse information. I'm also satisfied it carried out similar checks on the two-credit limit increases and approved relatively modest credit limits. So, I'm satisfied that on account 1 NewDay did carry out reasonable and proportionate checks on that application and on the credit limit increases. I also think on the face of it the account was affordable, and that Mr F managed that account appropriately for some years which I think provides additional evidence of its affordability.

I can see that account 2 was opened in May 2019 and that Mr F declared household income of well over £40,000. I can see that NewDay carried out checks on the application and calculated Mr F's overall debt at just over £6,000 and that there was no adverse information of concern on his credit file. So, I'm satisfied NewDay did carry out reasonable and proportionate checks on this application and that it was affordable with a relatively modest credit limit of £600. I don't find the lending on either account 1 or 2 to be irresponsible and again can see Mr F managed the account appropriately for some time after the lending decision which I think provides additional evidence of that affordability.

Mr F applied for account 3 in March 2020. I accept his income had increased but can see that NewDay was by this stage aware that his debt had also significantly increased, to about £10,000. I have looked at Mr F's credit file and can see there were a number of new credit accounts, loans and payday lending. I can also see from NewDay's records that it recorded Mr F's indebtedness as "high" and its record says Mr F's debt was more than £10,000 at £13,200. I also think NewDay ought to have been aware that there were signs from the other accounts that Mr F may have been experiencing financial difficulties for reasons that may not have been clear. In those circumstances I would have expected NewDay to have carried out further checks on Mr F's financial position to understand why he was taking out payday loans and loans when on the face of it his income was increasing. And why he needed a third credit card account with it when he appeared to have been applying for other forms of credit and loans.

So, I'm satisfied that reasonable and proportionate checks were not carried out on account 3 and had those further checks been carried out I think it likely that NewDay may have decided not to approve that account application. I can see that very shortly after opening account 3 Mr F told NewDay about his financial difficulties which I think provides support for the fact appropriate checks were not carried out on that account. It follows that I think the lending on account 3 was irresponsible and that Mr F was in a very different position to the one he was previously in.

Putting things right

I appreciate NewDay may have sold the debt on account 3 and if so then no doubt it will have to buy it back and refund interest and charges applied on it which should be deducted from the balance owed. I don't think it likely that will result in any refund being payable to Mr F but if there is then NewDay should pay the usual 8% simple interest. And it should provide a certificate if any taxation is deducted from that amount. NewDay should also remove any adverse information about that account from Mr F's credit file and agree with him an interest free repayment plan.

I appreciate Mr F makes further complaints about how NewDay has dealt with him following his financial difficulties but those are not matters I can fairly comment on in this complaint.

My final decision

My final decision is that I uphold this complaint in part and order NewDay Ltd to refund any charges and interest on account 3 and if there is a balance due after that refund then it should pay 8% simple interest on it to Mr F. NewDay should also remove any adverse information about that account from Mr F's credit file and agree with him a suitable repayment plan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 15 September 2021.

David Singh
Ombudsman