

The complaint

Ms E complains about NewDay Ltd trading as Amazon MasterCard and their decision to approve several credit card applications. She also complains about the credit limit increases applied on these accounts.

What happened

Ms E was provided with five different credit accounts by NewDay between 2014 – 2019. I will refer to these as accounts as Account M, Account Z, Account A, Account F and Account D.

During the time these accounts were provided to Ms E, she struggled financially due to a change in her employment circumstances and the birth of her child. And Ms E thought NewDay's approval of her applications, and subsequent limit increases, had caused some of that difficulty. So, in July 2020, she raised a complaint.

Ms E complained that NewDay had been irresponsible when approving her credit applications and then increasing her credit limits. She thought it should've been reasonably clear the credit was unaffordable and that she'd struggle to repay it. So, she wanted the interest and charges she'd paid to be refunded to her.

NewDay responded and didn't agree. They thought their decision to approve the credit applications, and increase these accounts limits, were reasonable as they'd completed fair and proportionate checks before doing so. So, they didn't think they needed to do anything more. NewDay didn't refer to all of Ms E's accounts in this response. Ms E remained unhappy with this, so she referred her complaint to us.

Our investigator looked into the complaint and initially upheld it. He thought NewDay had acted fairly when approving Account M and deciding to increase the credit limit from £900 in early 2015 to £3,400 in late 2016. But he thought NewDay had acted unfairly when increasing Ms E's limit on Account Z from £500 in February 2018 to £1,400 in July 2018 and then £1,850 in November 2018. He thought the increased limit was unaffordable to Ms E, as she'd be unable to repay this amount back in a sustainable way due to her decrease income. So, he thought any interest and charges applied to the account after the first increase in limit should be refunded, plus 8% simple interest.

NewDay didn't agree. They thought they'd completed reasonable checks before increasing Ms E's credit limit, based on a credit score they calculated using Ms E's credit file information and maintenance of her account. So, they didn't think they should do anything more. They also provided further information regarding Accounts A, F and D as Ms E wanted all accounts by NewDay to be considered. I've taken NewDay providing this information as consent to consider all five accounts as part of this one complaint.

As NewDay provided further information, our investigator looked into Ms E's complaint again to consider all of the accounts. And having done so, he upheld the complaint and changed some of his original conclusions.

For Account M, our investigator thought the limit increase applied in April 2016, from £1,800

to £2,400, was unreasonable. He explained this was because Ms E's unsecured debt had more than doubled in size since her initial application just a year earlier. He thought this should've prompted NewDay to make further checks into Ms E's financial situation and that, if they had, it would've become clear her circumstances were due to change as she was due to go on maternity leave. And this decrease in income would've shown the limit increase to be unaffordable.

For Account A, our investigator explained the initial decision to lend and the first limit increase fell outside of our jurisdiction to the six-year time limit. He thought the second and third limit increases were also affordable. But, he thought the fourth increase, applied in November 2016, was unreasonable for the same reasons as account M.

For Account Z, our investigator changed his view and thought the application shouldn't have been approved as, at the time it was made, Ms E's income had reduced to £13,600 and her outstanding debt was approximately £11,700. He thought this showed Ms E to be struggling financially and unlikely to repay the account in an affordable and sustainable way.

For Accounts F and D, our investigator thought Ms E's income compared to her outstanding debt suggested she was under pressure to maintain her financial position. So, he thought NewDay should've completed further checks to understand Ms E's situation and she thought if they had, they wouldn't have made the decision to lend. And even if they had, our investigator thought this was unfair as it was unaffordable as Ms E was unable to repay the credit in a sustainable way.

For each account, our investigator thought NewDay should refund the interest and charges applied from the date he thought the lending had been unreasonable. And if this resulted in a refund being owed to Ms E, this payment should include 8% simple interest.

NewDay didn't agree. They maintained their view that they'd assessed the affordability of each account and subsequent limit increase considering Ms E's maintenance of her accounts, credit file information and information declared at the point of application. They didn't think they were required to complete further checks, such as requesting bank statements, and didn't think this meant they'd acted unfairly by not doing so. They thought they were a near-prime lender that looked to provide credit to consumers who might not be able to obtain it elsewhere, meaning they took into consideration negative information reported to credit files but didn't decline applications purely on that basis. And they thought for each account and increase, Ms E should've been able to meet the minimum monthly repayment if the limit was utilised in full. So, they maintained they'd acted fairly and didn't need to do anything more. As NewDay didn't agree, the complaint has been passed to me for a 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.

Having done so, I'm upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

Ms E's complaint centres around NewDay's decision to approve her applications and the limit increase applied on each account. When NewDay make decisions to lend, or to increase credit limit, there are no set amount of checks they're obliged to make. But I need to be satisfied these checks were proportionate to the limit Ms E was being provided and

reasonably suggested Ms E would be able to repay the credit in a sustainable way. And if I think the checks were proportionate, I'd then need to be satisfied NewDay assessed the information the checks provided fairly, so the decision to lend was reasonable. And in this situation, I don't think that's the case. For ease of reading, I've discussed each account separately.

Before I explain how I've reached my decision, I want to explain what I consider to be affordable. I'm aware NewDay has commented on Ms E's ability to meet the minimum monthly repayments if her credit limits were fully utilised and they feel this means they provided affordable increases. But being able to meet a minimum monthly payment doesn't mean credit is affordable. Instead, I need to be satisfied the credit NewDay provided to Ms E was able to be repaid in a sustainable way, within a reasonable amount of time. So, I don't think being able to meet minimum monthly payments isn't enough to show credit is affordable.

I've seen the application data for Account M. It shows Ms E's monthly income was just over £2,100 and at the time she had £5,000 outstanding, unsecured debt. There were defaults present on Ms E's credit file but none had been recorded within the previous twelve months. And Ms E appeared to be maintaining her outstanding credit well. So, NewDay approved a credit limit of £900. I think the checks NewDay made were proportionate to the size of the limit. And I don't think there was any information that suggested Ms E would be unable to repay the credit in a sustainable way. So, I think NewDay's initial decision to lend was fair.

Five months later, NewDay increased Ms E's limit to £1,800. Although this is a sizeable increase, I've seen Ms E was managing her account well, paying more than the minimum monthly payment. So, I don't think I can say this increase was unfair based on the information available to NewDay. But in April 2016, NewDay increased Ms E's limit again to £2,400. So, in the space of a year Ms E's limit had almost trebled which I think is a significant increase. And crucially, I've seen Ms E's outstanding debt had almost double to £9,500 within the same time.

I think this should've suggested to NewDay that Ms E had been relying on credit during the previous year and that this should've prompted NewDay to make further enquiries into Ms E's circumstances before proposing another increase. And if they had, I think Ms E would've revealed to NewDay that her circumstances were due to change as she was about to go on maternity leave, causing a decrease to her monthly income. If this had been disclosed, I think it would've become clear to NewDay that Ms E would struggle to repay the credit in a sustainable way and so, I wouldn't expect them to offer a limit increase. Because of this, I don't think this limit increase, or limit increases applied on this account afterwards, was fair. I'll discuss what I think NewDay should do to recognise this later in the decision.

I've then thought about Account A, where I've only considered the events that occurred within six years of Ms E raising her complaint. NewDay increase Ms E's limit from £750 to £1,000 in February 2015. At this time, Ms E was in full time employment and her outstanding debt was similar to when she applied for Account M. So, I don't think there was anything to suggest to NewDay this limit was unaffordable. And I think this follows for the next limit increase, taking Ms E's limit to £1,750 in October 2015.

But in November 2016, Ms E's limit was increased again to £2,650. This was after NewDay had already increased Ms E's limit on Account M, which I think was unfair due to a change in her circumstances and a significant increase in her outstanding debt. So, I think it follows that NewDay's decision to increase Account M's credit limit was unfair.

For Account Z, I've seen the application data NewDay considered. This declares Ms E's annual income as £13,600 with a monthly income of £1,028. It also states Ms E's household

had access to another monthly income of £1,844. Ms E's monthly accommodation costs and living expenses totalled £900 which suggested Ms E had a disposable income of £128 left each month. It also showed Ms E had outstanding debts of £11,700. So, her minimum payments, based on 3% of this amount, would total £351. I think this should've showed to NewDay that Account Z was unaffordable to Ms E and shouldn't have been provided.

But I'm aware NewDay may have calculated this based on Ms E only paying 50% of the £900 stated. Even in this situation, Ms E would only be left with £227 disposable income. So, I don't think Ms E's circumstances suggested she'd be able to more than the minimum payments on her existing debts to clear them in a sustainable way. So, in either situation, I don't think NewDay were fair to approve Account Z. So, as I don't think NewDay should've lent to Ms E initially, it follows that I don't think the two following limit increases on the account were fair.

I've then turned to Account F, which was approved in May 2018. I've seen at the time of the application; Ms E's annual income was declared as £14,000. And her outstanding debt showed as £10,700. On this application, no other household income was declared nor were monthly living expenses or accommodation costs considered. So, at the time NewDay approved account F, I can't see that Ms E's situation had materially changed since Account Z was approved. So, I think it's reasonable for me to assume Ms E's expenses remained the same as when she applied for Account Z. So, for the same reasons, I don't think the credit NewDay approved was affordable to Ms E, as I don't think she had an ability to repay it in a sustainable way. Further to this, I think NewDay should've recognised Ms E had applied for credit with them three months earlier and noticed a pattern of Ms E requiring additional credit.

And finally, I've thought about Account D. I'm aware Ms D hasn't used the account and so, hasn't been impacted financially by being provided the credit. But I've seen the application data which shows Ms E's annual income had remained the same and that her other household income had remained similar. It also shows Ms E's outstanding debt had reduced slightly, to £9,200. Including Ms E's living expenses and accommodation costs, estimated at £600, she was left with £457. And when I estimate her minimum monthly payments on her existing debt, Ms E was left with £166 a month. So again, I think this should've shown to NewDay that any additional credit was likely to be unaffordable as Ms E wouldn't have been able to repay it within a sustainable way.

Putting things right

As I think NewDay have acted unfairly, I've then thought about what I think NewDay should do to put things right. Any direction or award I make is intended to place Ms E back in the situation she would've been in had NewDay not made an error in the first place. So, crucially, I'm unable to place Ms E in a position of betterment. Considering this, Ms E has had the benefit of the funds NewDay provided to her. So I think she should repay any capital amount she's used.

But I don't think it's fair for Ms E to pay the interest and charges applied to her account, where I feel NewDay have lent unfairly. This is because, if NewDay had acted fairly, this credit wouldn't have been provided to Ms E, so she wouldn't have been able to accrue interest and charges on these amounts. So, I think NewDay should refund any interest and charges applied to each account that I feel was approved unfairly. And for those accounts I think were fairly approved, NewDay should refund Ms E any interest and charges applied on limit increases I think were unfair. If these actions result in Ms E being owed capital refunds, NewDay should also pay 8% statutory interest from the dates Ms E made payments the accounts to the date the refund is issued.

My final decision

For the reasons outlined above, I uphold Ms E's complaint about NewDay Ltd trading as Amazon MasterCard and direct them to take the following action:

- For Account M, refund any interest and charges applied to the account from April 2016;
- For Account A, refund any interest and charges applied to the account from November 2016;
- For Accounts Z, F and D refund any interest and charges applied to the accounts; and
- If the above results in Ms E being owed a capital refund on any of the accounts, apply 8% statutory interest to this amount from date of a payment to the date the refund is issued.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms E to accept or reject my decision before 2 December 2021.

Josh Haskey
Ombudsman