

The complaint

Ms K complains about NewDay Ltd (“NewDay”) for proactively increasing her credit card limit on multiple occasions. She feels that the lending was irresponsible and caused her to incur greater debt. She wants NewDay to refund the interest and charges applied to her account.

What happened

In April 2019, Ms K searched for a credit card through a price comparison site. She was guided to an application for an Aqua card, offered by NewDay, and applied for it.

She completed information on her income as being a gross annual income of £24,000. She detailed that she rented her home.

Aqua carried out searches on Ms K and learned that she had around £14,500 of unsecured debts elsewhere. Aqua considered that Ms K’s application was medium risk and approved her application, offering her a card with a credit limit of £250. The card carried an interest rate of 34.9%

Ms K initially did not use the card but began using it in June 2019. She made repayments above the minimum repayment, but in July, August and September 2019 left a residual balance on the card.

In October 2019, NewDay wrote to Ms K, proactively increasing her credit limit. This increase was to £1500. The letter allowed Ms K the option to opt out of the increase and stated that if she didn’t opt out her limit would be increased.

Ms K did not opt out and her limit was increased.

Ms K spent more on her card and, although she made significant repayments, her balance increased, ranging between £430 and £1090 over the next four months.

In January 2020, NewDay again wrote to Ms K, offering to increase her limit by a further £1000. Again she did not opt out so her limit increased to £2500.

Ms K’s spending increased, and her balances increased until, by September 2020, she had a balance close to her limit. In October 2020, NewDay again proactively increased Ms K’s limit by a further £750, bringing her limit to £3250.

On two occasions over this period Ms K exceeded her credit limit and incurred charges.

Ms K has subsequently fallen into financial difficulties and a repayment plan has been set up for her. In January 2021 she complained to NewDay. She felt that the credit limit increases had been irresponsible and had contributed to her indebtedness and financial difficulties.

NewDay sent its final response to her complaint in February 2021. NewDay rejected that the first two credit limit increases had been irresponsible, but accepted that the increase in October 2020 was inappropriate. NewDay offered to refund to Ms K’s account all interest and charges applied to her balance above £2500.

Ms K was not happy with this and contacted us.

Our investigator has looked into this matter and set out his view to the parties. This was that he thought the initial decision to lend to Ms K was reasonable and affordable, but he did not think that the subsequent increases were responsible. He recommended that NewDay rework Ms K's account to remove interest and charges which were applied to her balance above the initial limit.

NewDay did not accept that view and made some further submissions. The complaint has therefore been passed for an ombudsman 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.

I have borne in mind that NewDay has submitted that its Aqua card is offered on a 'low and grow' basis whereby the initial credit limit is low but can be increased. NewDay has indicated that this is to allow consumers to build their credit.

I have also borne in mind that the card offered to Ms K was offered at a high interest rate, of 34.9%, making it a relatively expensive way to borrow.

NewDay has provided the information which informed its decision to lend and this shows that NewDay initially assessed Ms K as having high indebtedness and below average income. It noted that she had around £14500 of unsecured debt elsewhere. Ms K did not have any CCJs or defaults on her credit score so NewDay considered it was content to lend to her. On balance, I think that approving her application with a level of £250 was reasonable.

NewDay initially offered a low limit and, when Ms K demonstrated that she could manage that lower limit increased it rapidly.

From the evidence I have seen, I accept that NewDay undertook checks to ensure it was satisfied with the risk which Ms K presented to NewDay, and that it increased her credit limit to higher levels after Ms K had demonstrated that she would meet her repayments, but I have not seen evidence that NewDay adequately considered whether the lending was affordable for Ms K.

NewDay has referred to an affordability model which uses ONS data, and has stated that it is not required to request payslips or other information of its consumers. NewDay states that when considering a credit limit, it ought to "assume that the cardholder will draw down the full amount available at the earliest opportunity and repay it over a reasonable period".

I do not dispute the usefulness of such models generally, but in this instance the information before NewDay was that Ms K had an income of £24,000 per year, unsecured debts of more than £14,000, and rent to pay. She had managed to meet repayments by borrowing money from her partner for a period, but this was not sustainable.

I cannot see that either the model used, nor any other check undertaken, gave consideration to whether Ms K would be able to repay the full amount of lending, if she utilised it. I also cannot see that consideration was given to whether it was in Ms K's interest to have access to a further £3250 of unsecured debt, at a high rate of interest, on top of her existing unsecured debt.

Consequently, I agree with the investigator's view and I do not think the increases in lending

in this case were offered responsibly or appropriately, and I uphold Ms K's complaint.

Putting things right

My colleague set out his view on how NewDay ought to put matters right, and I think this is sensible. NewDay must rework Ms K's account to remove all interest and charges accrued on the account from the date of the first increase. If this results in any amount owed to Ms K this should be repaid to her, with 8% p/a interest from the date of payment up until the date of settlement.

In light of the above redress, I do not make any award of compensation for distress and inconvenience.

My final decision

For the reasons given above, I uphold Ms K's complaint and direct NewDay Ltd to:

- Re-work Ms K's account removing all interest and charges applied after the date of the first credit limit increase.
- If the above recalculation results in a payment owed to Ms K to return this to her, with interest at a rate of 8% per annum from the date of her overpayment up until settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 11 November 2021.

Laura Garvin-Smith
Ombudsman