

The complaint

Miss H complains that NewDay Ltd increased her credit limit from £500 to £1,250. She said this level of debt wasn't affordable for her, she couldn't pay back the lending, and she ended up in financial difficulties.

What happened

Miss H told us that NewDay contacted her in February 2020 to increase the limit on her card from £500 to £1,250. She said she had only made minimum payments on the credit card before then, and she was using a very high level of her available credit.

Miss H told us that at that time her take-home pay was averaging £1,600 a month, she was paying about £1,000 in rent and household bills, and about £200 in food and clothes costs. She said she then had over £12,000 of debt and her monthly debt repayments were over £400. The minimum payment on the card was over £100 a month. She said she just couldn't afford this.

Miss H said NewDay should've realised that she could not repay her balance within a reasonable length of time, so it should not have let her borrow more.

Miss H said she wanted to be refunded all the interest she had paid and late payment charges. She wanted like any markers to be removed from her credit file. And she wanted her account to be cleared.

NewDay didn't think it had done anything wrong. It said that when the card account was opened, Miss H told it she was living with parents and employed with an annual income of £17,460. Her credit file showed no accounts in arrears and no active debt management or repayment plans. She did owe £258 on payday lending, but that had not been in arrears in the last 6 months or defaulted in the last 12 months. NewDay said it knew that Miss H had defaults in the past, and what it refers to as "a public record" (likely to be a county court judgment) but those were over three years earlier. So it thought it could lend Miss H a modest amount to start, then offer increased lending as time went on.

Miss H doesn't complain about this initial lending.

NewDay said that when the credit limit increase from £500 to £1,250 was offered, the card had only been used for retail purchases. Miss H had been making her payments every month as per the terms of the agreement, with only one late fee charged and no over limit fees applied. NewDay said that Miss H's credit file showed no arrears or financial difficulty or affordability indicators and no active payday loans. So NewDay said that there were no clear concerns which ought to have meant it shouldn't make this increase.

Our investigator thought this complaint should be upheld. She said that NewDay hadn't provided any evidence that it had reviewed Miss H's income and financial commitments before offering this increase, and the previous information NewDay had received showed that Miss H had got into financial difficulties before. Our investigator said that if NewDay had carried out a full review, it should have realised that the increase was unaffordable.

NewDay disagreed. It wanted to know where our investigator had got additional information from about Miss H's financial position at the time. It said that it couldn't see Miss H's bank statements, and it didn't think that it should be judged against detailed information from those statements.

Because NewDay didn't agree with our investigator, this case was passed to me for a final decision.

My provisional decision

I issued a provisional decision on this complaint and explained why I did not propose to uphold it. This is what I said then:

I know that Miss H has told us she's in a difficult financial situation, and she isn't able to pay her credit card bill now. And I'm sorry to hear she's having difficulties. But what I've got to consider isn't whether the credit limit increase NewDay made in February 2020 ended up being affordable for Miss H. What I've got to think about is whether NewDay should've known, at the time this increase was made, that Miss H wasn't going to be able to afford this.

And that means I've got to look at the information that was available to NewDay at the time. NewDay knew how Miss H had been managing her card. And it has sent us the statements to show this. It says that Miss H was usually only paying the minimum, but she had made all her payments, and all but one of these was on time. I can see the one payment Miss H made late, was late by only two days. And she had used all of her available credit, but her purchases weren't essential spending. NewDay said Miss H's card usage didn't make it think she was in financial difficulties.

Miss H said she was spending significant amounts on rent and living expenses. But she had told NewDay some months earlier that she was living at home. And there wasn't anything in Miss H's usage of the card to suggest that her financial situation had changed, when NewDay decided to lend Miss H more money.

Importantly, NewDay has also sent us information on what Miss H's credit file showed when it made the decision to lend her more money. At that time, her used credit (which covers this credit card, cards held elsewhere, as well as loans) only totalled just over £1,000, about half of which was the NewDay card itself.

I can see that Miss H's used credit did then leap up to over £16,000. I can't tell what this was for. But whatever this lending was for, it only took effect after NewDay had made this credit limit increase.

If NewDay had been aware that Miss H had debts totalling over £16,000, on an annual income of not much more than that, then I would not have expected it to make this increase without asking for a considerable amount of further information on Miss H's financial situation. But what NewDay has sent us shows that it didn't know that. This lending doesn't show on her credit file until the month after the increase NewDay made.

So, at the time that NewDay made this increase, I don't think it had any reason to think either that this increase definitely wouldn't be affordable for Miss H, or that it ought to doublecheck, and seek further information from her, before it made any lending decisions.

And for that reason, although I know Miss H will be disappointed, I don't think this complaint should be upheld.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Neither side replied.

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 haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 30 September 2021.

Esther Absalom-Gough
Ombudsman