

The complaint

Mr C is unhappy that NewDay Ltd authorised him for a credit account with an initial credit limit of £600, and also that his credit limit was later increased to £1,200.

What happened

Mr C applied for a credit account with NewDay in March 2017. Mr C's application was accepted, and he was issued a credit account with an initial credit limit of £600. In November 2017, NewDay increased the credit limit on Mr C's account to £1,200.

In 2021, Mr C raised a complaint with NewDay on the basis that he felt that both the initial credit limit and the later credit limit increase hadn't been affordable for him at those times.

NewDay looked at Mr C's complaint, but they felt that they had conducted reasonable and proportionate checks into Mr C's financial position at the time of both the account application and the later credit limit increase, and that there had been nothing resulting from these checks that had given them cause to consider that the credit being offered to Mr C wouldn't be affordable for him at those times. So, they didn't uphold Mr C's complaint.

Mr C wasn't satisfied with NewDay's response, so he referred his complaint to this service. One of our investigators looked at this complaint. They felt that it had been reasonable for NewDay to have concluded at the point of application that the £600 credit limit would have been affordable for Mr C at that time. So, they didn't uphold this aspect of Mr C's complaint.

However, our investigator noted that Mr C's credit file demonstrated that Mr C's financial position had deteriorated between March 2017 – the time of the account application – to November 2017 – when NewDay had increased the credit limit on the account. Because of this, our investigator felt that NewDay should have recognised that the credit limit increase shouldn't have been offered to Mr C at that time, and they recommended that the complaint be upheld in Mr C's favour on this basis accordingly.

NewDay didn't agree with the recommendation put forward by our investigator, so the matter was escalated to an ombudsman for a final 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 issued a provisional decision on this complaint on 9 August 2021 as follows:

It's for a business to decide whether it will offer credit to a customer, and if so, how much and on what terms. What this service would expect would be that the business would undertake reasonable and proportionate borrow focussed checks to ensure that any credit being offered to that customer – including any increases to existing credit limits – is affordable for that customer at that time.

NewDay say that they did that here. At the time of the initial account application in March 2017, NewDay took details from Mr C of his monthly income and expenditure to confirm that Mr C would be able to make the potential monthly repayments required by the account. Additionally, NewDay also obtained information about Mr C's credit file from a credit reference agency in order to better understand Mr C's wider financial position.

Furthermore, before offering to increase Mr C's credit limit in November 2017, NewDay reviewed how Mr C had managed his NewDay credit account up to that time, and they also obtained updated information about Mr C's credit file from a credit reference agency. And NewDay contend that there was nothing resulting from these checks that ought reasonably to have made them consider that the credit being offered to Mr C wouldn't be affordable for him at those times.

I can appreciate NewDay's position here – to a degree - and having reviewed all the information available to me regarding Mr C's financial position at the time of the initial account application in March 2017, it seems both fair and reasonable to me that NewDay would have concluded that Mr C should have been able to afford the credit limit of £600 being offered to him at that time. And I say this because the monthly income and expenditure information supplied by Mr C appeared to be able to support such a credit limit, and because Mr C's credit file also didn't provide any reasonable indicators that such a credit limit would be unaffordable for him.

However, it's also apparent from the information available to me that Mr C's financial position did deteriorate shortly after being approved for the credit account, and while NewDay have stated that they took account of Mr C's financial position before increasing the credit limit on his account, I'm not convinced that NewDay developed an accurate understanding of Mr C's financial position or that they fairly accounted for the deterioration of Mr C's financial position at that time.

NewDay have explained to this service that the checks that they undertook into Mr C's financial position prior to increasing the credit limit on his account showed that there were six payday loans being reported on his credit file at that time, but that none of these loans were active – meaning that all Mr C's payday loans had been repaid, and had been repaid without incident.

However, having reviewed Mr C's credit file, it's evident that in the period between March 2017 and October 2017, Mr C took no less than ten payday loans, and that three of these payday loans were still being actively repaid by Mr C in November 2017, when NewDay increased the credit limit on his account. Furthermore, it's also evident that Mr C had also taken a personal loan and opened another credit card account during this period. And Mr C's total level of external debt had risen from £3,400 in March 2017, to approximately £10,700 by the time of the credit limit increase.

It's difficult then not to conclude that the picture that NewDay should have obtained from their checks into Mr C's wider financial position was one of significant increase in both short-term borrowing and total external debt, and while NewDay do correctly point out that Mr C hadn't missed any payments on any of the new borrowing that he had taken, it's equally difficult not to conclude that NewDay ought reasonably to have considered that the significant change to Mr C's financial position should have merited more robust checks than the ones that they undertook as standard.

And, had NewDay undertaken such further checks, which in all likelihood should have included contacting Mr C directly to discuss his wider financial position and his

increased use of payday loans and total external borrowing, I feel that it would have been probable that NewDay should have reasonably concluded that Mr C couldn't afford the credit limit increase under consideration at that time – such that the provision of that credit limit increase would have served only to further worsen Mr C's already deteriorating financial position.

I realise that this won't be the outcome that NewDay were wanting here, but it follows from the above that I'll be upholding this complaint in Mr C's favour on the basis that I don't feel that the credit limit increase implemented by NewDay in November 2017 was fair and reasonable. And my provisional decision will be that I uphold this complaint in Mr C's favour accordingly.

My provisional instructions to NewDay will be as follows:

- NewDay must reimburse to Mr C's account all interest, fees, and charges, incurred or accrued on the account relating to any balance above £600 from November 2017 onwards.*
- If these reimbursements result in the account having a credit balance in Mr C's favour, NewDay must pay this credit balance to Mr C along with 8% simple interest.*
- NewDay must also remove all adverse reporting from Mr C's credit file from November 2017 onwards.*
- Finally, NewDay must make a payment of £100 to Mr C to compensate him for any inconvenience he may have incurred.*

The instructions above differ from those recommended by our investigator in that our investigator didn't feel that NewDay should be instructed to amend Mr C's credit file, given that Mr C didn't make any payments towards the account after February 2018.

However, I feel that it can't be guaranteed that Mr C wouldn't have taken a different approach to this account, had it been the case that his total balance was maintained in-line with his initial credit limit of £600, as I feel it should have been. As such, I do feel that NewDay should remove the adverse information from Mr C's credit file from the point of the credit limit increase onwards, and my provisional decision include this instruction accordingly.

In my provisional decision letter, I gave both Mr C and NewDay the opportunity to provide any comments or further information they might wish me to consider before I moved to a final decision.

NewDay confirmed that they didn't agree with my provisional decision and stated that, while they could appreciate that I'd had the benefit of having reviewed Mr C's credit file, at the time that NewDay offered the credit limit increase to Mr C they hadn't seen Mr C's credit file and depended on the information that they were given from the credit reference agency – which NewDay continue to maintain didn't include any information which should have given them cause to consider that the credit limit increase being offered to Mr C might not be affordable for him.

I can confirm that I did review Mr C's credit file, but it must be noted that I did so on the basis of the information which NewDay have confirmed during their reiteration of their position to this service that they had gathered on Mr C's financial position at the time that offered the

credit limit increase to him – specifically, that Mr C's total external borrowing had increased from £3,400 to £10,700 and that Mr C had a significant number of Payday loans.

And, while NewDay have stated correctly that the use of Payday loans doesn't necessarily mean that a customer is experiencing financial difficulty, such that a credit limit increase might not be appropriate, it is the case that the use of Payday loans can be an indicator of financial difficulty, especially if other potential indicators of financial difficulty are present – such as an over threefold increase in an individual's total external debt, as was the case here.

NewDay have a responsibility to ensure that in providing a higher level of available credit to a customer, they're not contributing to that customer falling deeper into a potentially unsustainable level of debt. I don't feel that NewDay met that responsibility here, and it remains my position that the information that was available to NewDay at the time of the credit limit increase – including a significant increase in Mr C's total level of external debt along with the use of a number of Payday loans – should have given NewDay cause to consider that Mr C might have been experiencing financial difficulties at that time, such that further checks beyond the standard checks that NewDay employed, were necessary.

Furthermore, I'm satisfied that had NewDay undertaken these further checks, that it would most likely have been the case that NewDay should have concluded that it wasn't appropriate to offer a credit limit increase to Mr C at that time, because doing so posed an unreasonable risk of contributing to Mr C falling into an unsustainable level of debt.

Because of this, I continue to conclude that the provision of a higher level of credit to Mr C by NewDay in November 2017 does constitute an incidence of irresponsible lending, and my final decision will therefore be that I uphold this complaint on the basis that I have previously explained in my provisional decision above.

Putting things right

NewDay must reimburse to Mr C's account all interest, fees, and charges, incurred or accrued on the account relating to any balance above £600 from November 2017 onwards.

If these reimbursements result in the account having a credit balance in Mr C's favour, NewDay must pay this credit balance to Mr C along with 8% simple interest calculated from the date of the reimbursed transaction to the date that NewDay make the payment to Mr C.

NewDay must also remove all adverse reporting from Mr C's credit file from November 2017 onwards.

Finally, NewDay must make a payment of £100 to Mr C to compensate him for any inconvenience he may have incurred.

My final decision

My final decision is that I uphold this complaint against NewDay Ltd on the basis explained above

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 8 October 2021.

Paul Cooper
Ombudsman

