

The complaint

Miss T complains that NewDay Ltd, trading as Argos Classic Credit Card ("NewDay"), failed to carry out appropriate affordability checks before approving credit, and subsequent credit limit increases.

What happened

Between 2011 and 2019 Miss T applied for and was accepted for five credit cards trading under separate names with NewDay. During this time the credit limits on these cards were regularly increased.

- Card AA1 – Miss T took this card out in March 2011. In January 2017 the limit was increased to £1,050 from £300. In August the limit was raised to £1,950 and in January 2018 to £2,850.
- Card MS – Miss T took this card out in May 2017. The credit limit started at £450. In December 2017 the limit was increased to £1,450, in April 2018 to £2,450 and in August 2018 to £3,200. Miss T requested for the limit to be increased to £3,500 multiple times in 2019 but this was declined.
- Card AN – Miss T applied for this card and was accepted in March 2019. The credit limit was £500. In July 2019 this limit was increased to £600 and in September 2019 to £1,600. In November 2019 and August 2020 Miss T requested for the limit to be increased to £2,000 but this was declined.
- Card AS – The fourth card was taken out in October 2019. The starting credit limit was £300. In February 2020 the limit was increased to £1,300. In May 2020 Miss T requested for the limit to be increased to £1,500 but this was declined.
- Card AA2 – Miss T applied for this fifth credit card in September 2020. The initial credit limit was £250.

Miss T found herself in some financial difficulty and in December 2020 she complained to NewDay. She said appropriate affordability checks hadn't been completed and NewDay hadn't lent responsibly.

In its final response NewDay accepted that it shouldn't have approved the credit limit increase from 300 to £1,050 in January 2017. It also accepted it should not have opened the AA2 account in September 2020. With regards to the other credit card applications and credit limit increases NewDay said it was satisfied that each credit limit was provided to Miss T correctly and adequate checks had been completed to ensure these were affordable.

Miss T didn't agree and brought her complaint to this service. Our investigator concluded that with respect to the initial credit card, AA1, which Miss T applied for in March 2011, our service could not consider the merits of this account opening. In this case the complaint had

been brought to our service outside of the time limit set in the financial conduct authority (FCA) Handbook DISP 2.8.2 R. Miss T accepted this.

Our investigator concluded that NewDay hadn't carried out sufficient checks before approving the other cards and the subsequent limit increases that were applied to these accounts. She also concluded that the credit limit increases applied to her AA1 account in August 2017 and January 2018 were irresponsible. She said offering Miss T additional borrowing and the later increases clearly contributed to her financial problems. She recommended the refund of all interest and charges applied to Card MS, Card AN, and Card AS, and that all interest and charges should be refunded that had been applied to her AA1 account since August 2017 until the account was repaid.

NewDay didn't agree with these conclusions and asked for a final decision from an ombudsman. NewDay made several comments and, where appropriate, I have responded to them below.

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 don't believe NewDay carried out appropriate, reasonable, and proportionate affordability checks when Miss T applied for three of her credit cards and when credit limit increases were applied to her accounts.

Miss T has complained about the initial credit card, AA1, which she opened in March 2011. As our investigator has explained our service is unable to look at this account opening, but we are able to look at the others.

NewDay was required to lend responsibly, not just for each individual card but for the cumulative credit amount and all the credit limit increases. It had a responsibility to carry out appropriate affordability checks, proportionate to the amount Miss T wanted to borrow. These checks would normally include the cost of repayment and Miss T's borrowing history.

Below is a summary of Miss T's accounts with NewDay excluding Card AA2 which NewDay has accepted it should not have approved:

	Card AA1 Ending 1521	Card MS Ending 5677	Card AN Ending 2693	Card AS Ending 2070	Total NewDay
Jan-17	1050				1050
May-17	1050	450			1500
Aug-17	1950	450			2400
Dec-17	1950	1450			3400
Jan-18	2850	1450			4300
Apr-18		2450			5300
Aug-18		3200			3200
Mar-19		3200	500		3700
Jul-19		3200	600		3800
Sep-19		3200	1600		4800
Oct-19		3200	1600	300	5100
Feb-20		3200	1600	1300	6100

Card AA1 and Card MS

NewDay accepted that the credit limit increase from £300 to £1,050 in January 2017 should not have been applied, as Miss T had recently been in a repayment plan. It didn't agree that Miss T shouldn't have received the two further credit increases in August 2017 and January 2018 as, it said, by April 2017 Miss T was no longer in a repayment plan. NewDay said this was four months before the credit limit increased to £1,950. It went on to say there was no data reported to it by the Credit Reference Agencies (CRA) to show Miss T had affordability issues before the second and third credit limit increases took place.

NewDay accepted the first increase shouldn't have happened. So, it follows that the further credit limit increases and card applications should not have been accepted or at least should have been subject to further affordability checks. I've looked at Miss T's credit file in detail. During 2015 and 2016 Miss T applied for several short term loans. Between the end of 2016 and May 2017, when Card MS was taken out Miss T also applied for and was accepted for two longer term loans, one short term loan as well as a credit card with different finance providers. Between June and January 2018 when the credit limits of both Card AA1 and Card MS were further increased Miss T had taken out another longer term loan, a short term loan and another credit card with other finance providers.

This amount of additional credit with so many different credit providers in such a short space of time, without significantly paying down the debt, indicates to me that despite her stated income of £38,000 Miss T was already heavily reliant on credit. And any further credit from NewDay during this time should've warranted more affordability checks than were carried out.

NewDay told this service that Miss T was no longer on the repayment plan with another lender and she wasn't showing any difficulties with other lenders. It said no data had been received regarding pay day loans and she managed her MS account extremely well, with only one over-limit fee in July 2019. But the repayment plan only ended one month before Card MS was approved and according to her credit file Miss T had taken another credit card with a different provider in February 2017. While I understand that late payments and exceeding credit limits are indicators that a consumer is having financial difficulty, they are not the only signs, and I consider it irresponsible of NewDay to immediately approve a new card and the subsequent credit limit increases without further probing of Miss T's ability to pay down the debt.

NewDay has said that the short term loans were not reported to it and were not included in the underwriting data, information it sent to this service, so it wasn't aware of these loans at the time. But I can see from the underwriting data it was aware of other card accounts.

Card AN and Card AS

Between March 2018 and March 2019 when Miss T applied for Card AN she took out two further unsecured loans, two retail credit accounts, another credit card and short term loans with other finance providers. It also appears, from her credit file, she entered another debt management arrangement. By August 2019 Miss T had taken out a further credit card prior to the credit limit for Card AN being increased.

In its final response NewDay said Miss T had asked for her credit limit on Card MS to be increased to £3,500 multiple times in 2019 but was declined on each occasion.

At the time of her card application for Card AN Miss T had an unsecured debt balance of £28,900. She declared her income to be £45,000 with other household income bringing the total amount to £70,000. On this basis NewDay said it didn't find the amount of unsecured

debt to be excessive. I don't agree. It seems that Miss T wasn't paying down any of the debt, it was only increasing. Her MS card credit limit increases were being denied but during the same year had two new card applications approved with credit limit increases.

When she applied for Card AS Miss T declared her income £50,000 with other household income on top of that. NewDay told this service that Miss T's unsecured debt balance had risen to £38,500 at the time of her application for Card AS but it found the combined household income Miss T declared she had access to was sufficient. Again, I disagree. It seems by this time, despite her declared income, Miss T was heavily reliant on credit, was only making minimum payments and her balances were not reducing.

I'm satisfied that NewDay should have been more cautious in increasing the amount of credit to Miss T during this time. As NewDay declined credit limit increases on Card MS yet still approved credit limit increases for Card AN and the application for Card AS it doesn't appear that the total cumulative amount of Miss T's NewDay borrowing along with her significant borrowing from other finance providers was subjected to appropriate affordability checks. NewDay provided individual underwriting data for each card application but I can't see that NewDay looked across the card accounts at Miss T's account behaviour.

I'm satisfied the credit limit increases applied to Card AA1 in August 2017 and January 2018 should not have been approved. I'm also satisfied NewDay failed to carry out sufficient checks before approving Cards MS, AN and AS and the subsequent credit limit increases applied to these card accounts.

Putting things right

To put things right NewDay must:

- refund Miss T all the interest and charges that were applied to the MS (ending 5677), AN (ending 2693) and AS (ending 2070) credit card accounts, since they were approved;
- refund Miss T all the interest and charges that were applied to her AA1 (ending 1521) account since August 2017 until it was repaid.

Refunds can be applied to reduce any outstanding balance.

- In the event of a surplus balance, NewDay should pay this directly to Miss T and add 8% interest from the date the accounts move into a positive balance to the date of the settlement.
- Any adverse information, which has arisen following the MS, AN and AS credit card accounts to be removed from Miss T's credit file completely.
- Any adverse information, which has arisen following the AA1 credit card account from January 2017, to be removed from Miss T's credit file completely.

My final decision

My final decision is that I uphold this complaint and instruct NewDay Ltd trading as Argos Classic Credit Card to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss T to accept or reject my decision before 15 March 2022.

Maxine Sutton

Ombudsman