

The complaint

Ms B complains that NewDay Ltd provided her with two credit cards which were unaffordable.

What happened

Ms B applied for a credit card with NewDay in March 2009. This credit card was under the Aqua brand. She was initially given a £900 credit limit. The credit limit was amended by NewDay over the coming years as follows:

- Increased to £1,400 in June 2009
- Increased to £2,450 in April 2014
- Increased to £3,700 in May 2016
- Increased to £4,850 in October 2016
- Increased to £6,450 in February 2017

This account defaulted in June 2018.

Ms B applied for another credit card with NewDay in August 2017, this time under the Marbles brand. She was given a credit limit of £900 on this card and the limit has never increased. This account has been passed to a debt collection agency.

Ms B complained that the credit cards were unaffordable to her and that she was given multiple credit limit increases which led her into further debt. Ms B says her job changed in 2016 which reduced the amount she was able to earn. She says at this time she had multiple payday loans.

One of our investigators looked into this complaint. He explained that there are certain rules which set out the time limits for complaints to be referred to us. He said that the initial credit card application for the Aqua card and the first credit limit increase in June 2009 hadn't been referred to us in time. This was because Ms B hadn't referred the complaint to us within six years of the event she was complaining about, or within three years of when she ought to have known she had reason to complain – which our rules say must happen for us to be able to look into a complaint. He said that as NewDay hadn't consented to us considering these points, we couldn't look into them. Ms B accepted this.

Our investigator went on to consider the increases of the credit limit on the Aqua card from 2014 to 2017 and the application for the new Marbles card. He didn't think that NewDay should've offered Ms B the credit limit increases. He also thought NewDay shouldn't have agreed to Ms B's application for the Marbles credit card. He recommended NewDay remove all interest and charges on the account and remove any adverse data recorded on her credit file.

Ms B accepted the investigator's findings, but NewDay didn't. So the complaint has been passed to me to consider and make 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.

Having done so I agree with our investigator, and for largely the same reasons. I'll explain why.

Ms B has accepted our investigator's opinion that the initial application for the Aqua credit card and the first credit limit increase were referred to our service to late. For completeness, I'll confirm that I agree that Ms B didn't refer these complaint points within the time limits set out in our rules for the reasons our investigator explained. But I won't address this in further detail.

When a business is lending, or increasing lending, such as in this situation, it's required to carry out checks which are reasonable and proportionate to the amount being lent. And it also needs to show it considered that Ms B would've been able to sustainably repay the credit provided, without causing undue difficulty and without having to borrow further to meet other financial commitments. And sustainably repay means Ms B should've been able to repay the full amount of credit within a reasonable time.

Having looked at everything provided by NewDay I can see that it did carry out a number of checks including looking at the other lending Ms B had elsewhere, and how she had conducted her NewDay accounts. But I don't agree that the checks it carried out should've led it to the decision to continually increase Ms B's borrowing facilities. I'll explain why.

Ms B maintained the balance of her cards very close to, and often over, the credit limit. She usually only made minimum payments. And after every credit increase, she would quickly spend the additional money she'd been provided, and then maintain this balance by only making the minimum payments again. I also note that Ms B regularly made cash withdrawals on her card. Whilst each of these issues, taken alone, may not have meant that a credit limit increase was unaffordable, when taken together, I think they raise a number of questions which should've been looked into further. Ms B was getting into a debt spiral where it was increasingly likely she would never be able to repay the debt, let alone over a reasonable period. I think, following the checks it carried out, NewDay should've realised that increasing the borrowing would be unaffordable for Ms B.

I'll address each credit limit increase separately.

March 2014

In the 12 months prior to this credit limit increase, Ms B was over the credit card limit and incurring charges because of this, for seven months. Whilst she did manage to bring this within the limit, she was only making the minimum payments and the balance remained very close to the credit limit. Based on this information, it's clear Ms B wasn't managing her credit card very well at this time and was struggling just to stay within her existing limit. I don't think the answer to this was to offer more borrowing. I think that NewDay should've realised this and, had it done so, I don't think it should've offered her an increase leading her potentially into further debt when she was struggling to afford what she already had.

May 2016

Prior to this increase, Ms B had exceeded her credit limit for ten of the previous 12 months. She'd been charged for each of these credit limit breaches and had also been charged once for paying late. I also note that Ms B had multiple payday loans by this time. Again, all of these points show me that Ms B was struggling with her existing credit limit, with little prospect of it ever being repaid. And a further increase was likely to make matters worse. Following the previous credit limit increase, she'd quickly gone to the new limit, and had exceeded it regularly. Based on this, I don't think a further increase was affordable to her.

October 2016

This increase was just five months after Ms B's previous increase. In that time, Ms B had again reached the new limit and was still making minimum payments only. She'd also incurred a late payment fee the month before. This shows me that Ms B was likely to quickly use any increase she was provided with, and have very little chance of ever making a meaningful reduction in her debt. So I don't think providing a further increase was right for her.

February 2017

Ms B very quickly went to the upper end of the new credit limit in October 2016, and had exceeded it in December 2016. And she was charged a fee for this. Whilst she did bring it back to just under the limit, she was still only making the minimum payments with little prospect for this debt being repaid. And I don't think offering Ms B a further £1,600 credit was affordable to her. This is evidenced further, in my opinion, by the fact that she had exceeded her new credit limit of £6,450 by September 2017 - within 7 months of the most recent increase.

This increase was just four months after the previous large increase, and just nine months from the increase before that. This meant that Ms B's credit limit had increased from £3,700 to £6,450 in just nine months. And it was at this time that Ms B started to fall behind on her payments. She was never able to reduce these arrears or bring the debt under the credit limit, and the account defaulted in June 2018. So I don't think this increase was affordable either

Marbles Credit Card Application August 2017

Ms B was clearly struggling with her existing debt with NewDay. This application for a new credit card came just six months after NewDay had increased Ms B's limit on her Aqua card to £6,450 and she exceeded this credit limit within three months of it being granted. It was passed to a debt collection agency within eight months. Ms B still had existing payday loans at this time as well. Whilst this wouldn't preclude a customer from obtaining further debt in itself. When taken with the other information NewDay knew about Ms B, it should've realised further lending was unaffordable.

I've already set out why I don't think NewDay should've granted the credit limit increases. So it follows that, for the same reasons, I don't think it should've agreed the application for the new Marbles card. In effect furthering her debt with NewDay which was already at unsustainable levels for the reasons set out above.

I've noted NewDay's point that Ms B didn't have to accept these limit increases. But that's not the point here. NewDay shouldn't have offered these increases which were, in effect, trapping Ms B in a debt she could never reasonably expect to repay.

Putting things right

To put things right, I direct NewDay Ltd to:

- Refund all interest and charges applied to the Aqua account since April 2014.
NewDay may offset this against the defaulted balance, but if there remains a positive balance after doing so, NewDay should add 8% simple interest to this.
- Remove any adverse information which is recorded on Ms B's credit file about this debt from April 2014.
- Refund all interest and charges applied to the Marbles account from inception.
NewDay may offset this against the balance which is now with a debt collection agency. If there remains a positive balance after doing so, NewDay should add 8% simple interest to this.
- Remove all details of this account from Ms B's credit file.

My final decision

I uphold this complaint and order Newday Ltd to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 21 December 2021.

Rob Deadman
Ombudsman