

The complaint

Miss K complains that NewDay Ltd irresponsibly allowed her to open a credit card account and later increased the credit limits. She says the lending was unaffordable.

What happened

Miss K says she opened the NewDay credit card account in 2015. She says her credit file was poor at the time with other lending. Miss K says the credit limit was increased and they were also unaffordable. She would like interest and charges refunded and realised the lending was unaffordable in 2021 when her consolidation loan became difficult to repay.

NewDay says the account was opened in June 2015 with a credit limit of £450. It says Miss K told it she was working and could see that she didn't have any adverse information such as defaults or arrears on her credit file. NewDay says the credit limits were correctly assessed and the account was closed in early 2017 with the full balance repaid.

Miss K brought her complaint to us and our investigator upheld the complaint in part. The investigator thought NewDay carried out appropriate checks when the account was opened but noted NewDay concluded Miss K had high levels of unsecured debt. The investigator thought the two credit limit increases in December 2015 to £650 and in April 2016 to £850 were also correctly assessed and relatively small. But he thought the last increase in October 2016 to £1,650 was significant and unaffordable. And that further checks should have been carried out such as on Miss K's bank account which would have shown that she was dependant on her overdraft. The investigator recommended NewDay refund interest which he calculated at about £74 and pay 8% interest on that amount until the complaint was settled.

Miss K accepts that view but NewDay does not. In summary it says the affordability requirements in 2016 were different and it wasn't required to check bank account statements. It also questions if there is evidence of the consolidation loan and says Miss K must have passed credit checks with another lender to obtain that loan.

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 have come to the overall view that I uphold this complaint in part and for slightly different reasons to those of the investigator. I don't think those differences require me to issue a provisional decision as they relate to the award calculation.

Lenders and credit providers must carry out reasonable and proportionate checks on any lending or credit application. Those checks will of course vary depending on the type and amount of the lending. This was an application for a credit facility rather than a loan or mortgage and so I wouldn't have expected NewDay's checks to have been as detailed as for that type of lending, but of course appropriate checks still have to be carried out. I accept that the requirements on lenders was different in 2015 and 2016 but I still have to consider if

the lending was appropriate.

I'm satisfied having looked at NewDay's records that Miss K applied for the credit card account in June 2015 and declared an income of £15,000 a year. I can see that NewDay checked Miss K's credit file and concluded that there wasn't any adverse information recorded on it such as arrears or defaults. But I can also see that NewDay recorded that Miss K had a low income and high levels of debt. I will come back to that point. So, I'm satisfied that NewDay did carry out reasonable and proportionate checks on the application and approved what I think is a very modest credit limit of £450. It follows that I don't think the lending was unaffordable or irresponsible.

The credit limit was increased to £650 in December 2015. I find that was again a very modest increase and I can see that checks were carried out by NewDay before the increase was offered. I don't think that increase was unaffordable.

The credit limit was again increased in April 2016 to £850. I think this increase of £200 was again modest and that the overall credit limit was still below £1,000. It follows that I don't think that increase was irresponsible or unaffordable. But I think at that stage NewDay ought to have been aware of how Miss K was using the account and that her payments were close to the minimum required.

In October 2016 NewDay increased the credit limit from £850 to £1,650. I'm satisfied that was almost doubling the credit limit and was significant. I say that as NewDay knew that Miss K's income was relatively low, and it knew she had high levels of other debt. So, I think it ought to have carefully considered if such a large increase was appropriate. I think it ought to have looked at Miss K's account management and that she tended to use the new credit limits almost immediately. And that she was close to her credit limit. I appreciate the investigator thought that NewDay ought to have checked Miss K's bank account statements. I accept that may not have been NewDay's practice, but I also think such information was available on Miss K's credit file.

I don't think reasonable and proportionate checks were carried out on the last credit limit increase. And whilst I accept NewDay's regulatory requirements were different then, I think this was a significant credit limit increase that required further consideration. I think it likely that had further checks been carried out then NewDay ought to have concluded the lending was unaffordable.

I appreciate NewDay questions the evidence of the consolidation loan. I have looked carefully at Miss K's credit file and can see that she took out a loan in December 2016 for about £11,000 that was repaid by a further loan taken out in 2017. I can also see that later loan is in arrears which is the reason Miss K says she now complains about the original lending.

I can see from NewDay's records that Miss K used the new credit limit immediately in October 2016 following a familiar pattern. That would not have had a significant impact when the increases were fairly small. But I have made clear this was a relatively significant increase and required further checks. And at the point of that last increase I think NewDay ought reasonably to have had enough information about how Miss K managed her account, the type of payments she made and the exceeding of the previous existing limits to have realised a credit limit increase without further checks and enquiries was inappropriate and irresponsible.

Putting things right

I intend to order NewDay to refund any interest and charges applied to Miss K's account

following the last credit limit increase and caused by that credit limit increase. I also think that NewDay should pay 8% simple interest on that award and if a deduction of taxation is made then Miss K should be provided with a certificate of that deduction. I make clear that I don't intend to calculate that award as the investigator has done and will leave it to NewDay to do so.

My final decision

My final decision is that I uphold this complaint in part and order NewDay Ltd to refund any interest and charges applied to Miss K's account following the last credit limit increase and pay 8% simple interest on that award until settlement. If NewDay deduct any taxation from that award, then a certificate of deduction should be provided to Miss K.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 17 December 2021.

David Singh
Ombudsman