

The complaint

Mrs C is unhappy that NewDay Ltd approved her for credit at times when the credit wasn't affordable for her. Mrs C is also unhappy that NewDay transferred one of her accounts to a debt collection company.

What happened

Mrs C has a number differently branded NewDay administered accounts. Mrs C fell into financial difficulty and struggled to meet the contractual payments required on the accounts. Mrs C contacted NewDay and made them aware of her financial difficulties, but NewDay passed one of her accounts to a debt collection company. Mrs C wasn't happy about this, and she also felt that NewDay shouldn't have approved her for credit that she couldn't reasonably afford. So, she raised a complaint.

NewDay looked at Mrs C's complaint. They felt that they had undertaken checks into Mrs C's financial position at the times that they'd offered her credit, and that there'd been nothing resulting from these checks that should have given them cause to suspect that Mrs C might not be able to afford the credit being offered to her. So, they didn't uphold that aspect of Mrs C's complaint.

However, NewDay did acknowledge that when Mrs C informed them of her financial difficulties and they negotiated a payment arrangement with her, that one of her accounts hadn't been included in the discussion and had later been transferred to a debt collection company. NewDay apologised for this and removed £37.87 of incurred fees and charges from the account. NewDay also offered to make a payment of £25 to Mrs C to compensate her for the inconvenience she'd incurred.

Mrs C wasn't satisfied with NewDay's response, so she referred her complaint to this service. One of our investigators looked at this complaint. They felt that while it had been reasonable for NewDay to offer credit to Mrs C at the beginning of the business relationship, it should later have become evident to NewDay, given how Mrs C struggled to manage some of her NewDay accounts, that Mrs C was potentially experiencing financial difficulties, such that the provision of further credit to Mrs C shouldn't have taken place. Our investigator therefore recommended that this complaint be upheld in Mrs C's favour on that basis.

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.

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, before approving a customer for a new line of credit, or before increasing the amount of credit available to a customer on an existing line of credit, the business would undertake reasonable and

proportionate borrower focussed checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

NewDay say that they did that here. At the point of application for each of the differently branded accounts, they took information from Mrs C about her household income to check that she could afford any potential monthly repayments that might become due on the account. Additionally, NewDay also obtained information from a credit reference agency to better understand Mrs C's wider financial position.

Also, at the time that NewDay increased the credit limit on one of Mrs C's accounts, they reviewed how Mrs C had managed her account to that point as well as obtained updated information from a credit reference agency to refresh their understanding of Mrs C's wider financial position.

NewDay believe that there wasn't anything resulting from any of these checks which they feel should reasonably have given them cause to suspect that the credit being offered to Mrs C at those times was unaffordable for her, and because of this NewDay feel that they didn't act unfairly or unreasonably by providing the credit to Mrs C that they did.

Mrs C applied for the first of her NewDay administered accounts in November 2015. At that time, Mrs C informed NewDay that she was employed with an annual income of £12,500 and that she had approximately £21,000 in existing credit card debt. NewDay noted that Mrs C had a high level of indebtedness when compared to her relatively low income, but they also noted that Mrs C's credit file information showed that she wasn't in arrears on any of her existing credit accounts.

On this basis, NewDay approved Mrs C's application and issued her with a credit card with a £900 limit. And I'm satisfied, given the conclusions that NewDay were reasonably able to draw about Mrs C's financial position at that time – specifically, that while Mrs C did have a relatively high level of existing credit, she wasn't struggling to manage that credit at that time – as well as the relatively low amount of credit that NewDay provided to Mrs C here, that it was reasonable for NewDay to have approved this application in the manner that they did.

However, at the time of the next provision of credit – which was an increase in the credit limit on this first credit account, from £900 to £1,950, which took place in September 2016 – it appears that the picture of Mrs C's financial position that I feel NewDay ought reasonably to have drawn is less positive. And I'm not convinced that it was fair or reasonable for NewDay to have increased the credit limit on Mrs C's existing credit account because of this.

NewDay have stated that they reviewed how Mrs C had managed her existing NewDay credit account up to the point of the credit limit increase, and that Mrs C's management of her account didn't give them cause to suspect that the credit limit increase to £1,950 might be unaffordable for Mrs C at that time.

But it's evident from the monthly statements for Mrs C's credit account that Mrs C was struggling to maintain the account balance within the £900 credit limit at that time and the account was regularly over that credit limit in the months leading up to the credit limit increase. This meant that Mrs C was incurring over limit charges on the account, and I'm not convinced that it was fair or reasonable for NewDay to have more than doubled the amount of credit available to Mrs C at that time, given that it seems clear that Mrs C was struggling to meet the financial commitments of the account at the existing lower level of credit.

NewDay have stated that they also reviewed information from a credit reference agency at the point of the credit limit increase to refresh their understanding of Mrs C's wider financial

position, and that this confirmed that Mrs C wasn't struggling to meet any of her other existing credit commitments.

I can appreciate NewDay's position here – to a degree. But I don't feel that NewDay's assessment of Mrs C's credit file information should have overridden the more detailed information contained within the NewDay account statements which I'm satisfied did provide a clear indication that Mrs C might be struggling financially.

All of which means that I do feel that the information available to NewDay at the time of the credit limit increase on Mrs C's first NewDay credit account in September 2016 was such that NewDay should have reasonably concluded that Mrs C might not be able to afford the credit limit increase such that the increase shouldn't have been implemented. And it follows from this that I will be upholding this aspect of Mrs C's complaint.

The next provision of credit took place in March 2017, when Mrs C applied for a new differently branded NewDay administered credit account – brand two. At the point of application, Mrs C told NewDay that she had an annual income of £8,500, and that there was other household income of £35,000 that could be taken into consideration. NewDay also obtained information from a credit reference agency which confirmed that Mrs C wasn't in arrears on any of her other existing credit accounts and appeared to show that Mrs C was managing her existing credit without incident at that time.

I've also reviewed the statements for the NewDay administered brand one account that Mrs C already held for the months leading up to this application. And, while Mrs C did maintain the balance of the brand one account close to the credit limit, it's evident from the statements that the balance never went over the credit limit and that Mrs C made the payments necessary to maintain that account within the contractual terms.

Accordingly, I'm satisfied that it was reasonable for NewDay to conclude, based upon the information that was available to NewDay at that time, that it was more likely than not that Mrs C would have been able to afford the brand two credit account that she was applying for, especially given the relatively modest credit limit of £900 that the credit card was initially issued to Mrs C with, and which wasn't subsequently increased.

The final two provisions of credit both took place in August 2018. At that time, Mrs C applied for two more differently branded NewDay administered accounts – brands three and four – both of which were applied for with £500 credit limits.

At the time of the applications, Mrs C advised NewDay that she had an annual income of about £15,000 and that there was other household income via her partner that could be taken into consideration. Additionally, the information that NewDay obtained from the credit reference agency confirmed that Mrs C wasn't in arrears on any of her existing credit commitments and that her total amount of existing credit had reduced slightly since the application the previous year for the brand two account.

At first glance, it may appear reasonable for NewDay to have approved these applications. However, Mrs C held two active NewDay administered accounts at the time of these applications, and the statements of these accounts provide clear indications that Mrs C might have been struggling financially at that time.

I say this because on the statements for both the brand one and the brand two accounts for the months leading up to the new applications, it's evident that Mrs C had failed to keep the balance of those accounts within the respective credit limits on several occasions, including in the months immediately prior to the new applications, and that she'd incurred overlimit fees on both of her existing NewDay administered accounts because of this.

It therefore doesn't seem fair to me, given that there was clear evidence that Mrs C was struggling to maintain her existing NewDay administered accounts and was incurring fees as a result, that NewDay would then approve Mrs C for two additional credit accounts, thus potentially increasing Mrs C's level of indebtedness at a time when there were clear indicators that she couldn't potentially manage the level of credit that she already held. And it follows that I'll be upholding this aspect of Mrs C's complaint accordingly.

Finally, Mrs C has also expressed that, when she contacted NewDay and advised them that she was struggling to meet the account payments on all of her accounts, that the brand one account was still subsequently passed by NewDay to a debt collection company. NewDay acknowledged in their response to Mrs C's complaint that they made an error in this regard, and they apologised to Mrs C and reimbursed applicable interest and charges to that account, and also credited the account with £25 by way of compensation. This feels fair to me, and I won't be instructing NewDay to take any further action in this regard.

All of which means that, while I'm satisfied that it was reasonable for NewDay to provide the initial provision of credit for both the brand one account in November 2015 and the brand two account in March 2017, I feel that the information that was available to NewDay at the time of the credit limit increase on brand one, which took place in September 2016, and also at the time of the provisions of credit for brands three and four in August 2018, was such that NewDay should have concluded that Mrs C might be in financial difficulty at those times and that those provisions of credit shouldn't have then been implemented by NewDay.

I realise that this might not be the outcome that NewDay wanted here, but it follows from this that I'll be upholding this complaint in Mrs C's favour on that basis and issuing corrective instructions to NewDay accordingly. I trust that NewDay will understand, given all that I've explained, why I've made the final decision that I have.

Putting things right

NewDay must reimburse to Mrs C's brand one account all interest, fees and charges incurred or accrued on the account from the point of the credit limit increase in September 2016 onwards for the portion of the balance above the initial credit limit amount of £900.

NewDay must also reimburse to Mrs C's brands three and four accounts all interest, fees and charges incurred or accrued on those accounts from the point of account opening.

If these reimbursements result in any of the accounts having a credit balance in Mrs C's favour, these balances must be paid to Mrs C along with 8% interest calculated to the date of the payment to Mrs C. These payments may not take the form of credits to the relevant accounts unless Mrs C gives her permission for them to do so.

For any accounts which, after the reimbursements, continue to have a balance outstanding for Mrs C to pay, NewDay must contact Mrs C to arrange a suitable repayment plan in consideration of Mrs C's financial circumstances at that time.

Finally, NewDay must remove all adverse reporting from Mrs C's credit file for the brand one account from September 2016 onwards and for brands three and four from the points of account opening.

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 Mrs C to accept or reject my decision before 26 November 2021.

Paul Cooper
Ombudsman