

The complaint

Ms A complains that NewDay Ltd irresponsibly allowed her to open three credit card accounts and later increased the credit limits on them which was unaffordable.

What happened

Ms A says she opened three NewDay credit card accounts which I will call “A”, “M” and “D” all of which were unaffordable. She says the credit limits were also increased on the accounts which was also unaffordable. Ms A says if NewDay had looked at her credit file she would have seen the difficult financial position she was in and had low income with other debts. She says NewDay didn’t carry out appropriate checks on the applications and would like the charges and interest refunded and any adverse information removed from her credit file.

NewDay accepts it shouldn’t have opened the D account and has refunded interest and charges on that account. It says the decision to allow accounts A and M was appropriate and that it did carry out required checks. NewDay says Ms A told it about her income and it carried out affordability checks as well as checks on her credit file. It accepts later credit limit increases were inappropriate when it was clear Ms A was in financial difficulties.

Ms A brought her complaint to us and our investigator upheld it in part. The investigator agreed that the D account should not have been opened and recommended the default be removed from Ms A’s credit file. The investigator thought appropriate checks were carried out on the A and M accounts and Ms A declared an income of £12,000 with additional income of between £1,500 to £2,600. The investigator didn’t think there was any adverse information on Ms A’s credit file at that time or at the time of the credit limit increases up to September 2015 and that Ms A managed those accounts appropriately.

The investigator didn’t think later credit limit increases on the M and A accounts in 2018 were affordable and recommended NewDay refund any charges and interest as well as remove any adverse information from Ms A’s credit file. The investigator thought the defaults were correctly applied and didn’t think it likely any actual re-payment to Ms A was likely and so interest would not be awarded.

NewDay accepts the investigator’s view and recommendations.

Ms A doesn’t agree with that view and says she didn’t ask for the credit limit increases and says she had other debts.

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 same overall view as the investigator and for the same reasons. I appreciate Ms A will be disappointed by my decision.

There is no dispute here that the D account shouldn’t have been opened and so I will not

comment on that part of the complaint further. I can see that NewDay has fairly agreed to remove the default from Ms A's credit file.

Lenders and credit providers should carry out reasonable and proportionate checks on any application for credit or lending. Those checks will of course vary depending on the type and amount of any lending. This was an application by Ms A for a credit facility and so I wouldn't have expected NewDay's checks to have been as detailed as for example a mortgage, but I would still expect appropriate checks to be carried out.

I'm satisfied that Ms A applied for the A account in 2015 and declared an income of £12,000 a year as well as additional income of £2,600. I can see from NewDay's records that it did check her credit file and noted there was no adverse information or defaults recorded on it. I can see NewDay also carried out affordability checks and approved what I think was a very modest credit limit of £300. So, I'm satisfied NewDay carried out reasonable and proportionate checks on the application and its decision to approve the account was not unaffordable or irresponsible.

The credit limits on account A were increased in 2015 to £1,100. I'm satisfied that limit was relatively modest and that NewDay considered the increases and was entitled to consider Ms A's appropriate account management such as the lack of missed or late payments. It follows that I find that the credit limit increases were affordable and that reasonable and proportionate checks were carried out. I appreciate Ms A may not have requested the increases, but I don't think that is the issue here and in any event the account terms and conditions make clear that NewDay may review credit limits.

The M account was opened in May 2016. I'm satisfied that again Ms A declared an income of £12,000 a year with additional income of £1,500 a year. I'm satisfied that NewDay carried out checks on that application and fairly considered the lack of adverse information on Ms A's credit file. I can also see that affordability checks were carried out and a relatively modest credit limit was approved. So, I'm satisfied this application was also appropriately considered and that reasonable and proportionate checks were carried out by NewDay. And that the account was affordable.

Both the A and M accounts were given further credit limit increases in around 2018. It is accepted these were unaffordable and ought not to have been given. I don't need to comment further on those increases.

I appreciate Ms A says she had other debts in 2015 that ought to have been obvious to NewDay. But I have not seen any evidence of those debts and would have expected Ms A to have provided a full copy of her credit file in these circumstances. I have made clear that I'm satisfied that NewDay carried out reasonable and proportionate checks on the A and M applications and on the 2015 credit limit increases.

Putting things right

NewDay should remove the D default as it's agreed to do and can see it has refunded interest and charges on that account.

NewDay should remove any adverse information from Ms A's credit file related to the decision to increase her credit limit on accounts A and M from June 2018 which was the date of the unaffordable credit limit increases. It should also refund interest and charges and deduct them from the balance owed. If there is a further balance repayable to Ms A then it should pay 8% simple interest on that amount. If NewDay deducts any taxation from that refund, then it should provide a certificate to Ms A.

NewDay should also agree a suitable repayment plan with Ms A.

My final decision

My final decision is that I uphold this complaint in part and order NewDay Ltd to carry out the actions it has agreed to do which are listed in this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 15 December 2021.

David Singh
Ombudsman