

The complaint

Mr C is unhappy that NewDay Ltd approved him for a credit account which he feels wasn't affordable for him at that time.

What happened

In August 2015, Mr C applied for a NewDay administered credit account. His application was approved, and Mr C was issued with a credit account with a credit limit of £300.

In early 2021, Mr C raised a complaint with NewDay on the basis that he felt that the credit that NewDay approved him for in August 2015 hadn't been affordable for him at that time.

NewDay looked at Mr C's complaint. They felt that they'd conducted checks into Mr C's financial position at the time of the account application and that there had been nothing resulting from those checks that should have given them cause to suspect that the credit account might not be affordable for Mr C. So, they didn't uphold Mr C's complaint.

Mr C wasn't satisfied with NewDay's response, so he referred his complaint to this service. One of our investigators looked at this complaint. They noted that at the time of the account application that Mr C had two recent defaults on his credit file. As such, our investigator didn't feel that it had been fair or reasonable for NewDay to have provided further credit to Mr C at that time, and they recommended that the complaint be upheld in Mr C's favour on that basis.

NewDay didn't agree with the recommendation put forwards 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 time of the account application they took details of Mr C's annual income from Mr C to check that Mr C could likely meet any monthly repayments that might become due on the account. Additionally, NewDay also obtained information from a credit reference agency to get a better understanding of Mr C's wider financial position. And NewDay contend that there was nothing resulting from these checks that they feel should have given them any cause to suspect that the credit account that Mr C was applying for might be unaffordable for him at that time.

However, it's evident from the information that NewDay have provided to this service that the

information that they obtained from the credit reference agency wasn't accurate and therefore didn't enable them to make an informed decision as to the affordability of the credit account for Mr C. And I say this because Mr C's credit file confirms that Mr C had defaulted on two existing credit accounts in the months leading up to the NewDay application, including a default only two months prior.

NewDay have explained that, given the relatively low level of credit for which Mr C was applying, they still feel that the credit account was affordable for him at that time, and that as such they still would have taken the decision to approve the account, even had they taken the recent defaults into account at the time of the application.

I find it difficult to understand NewDay's position here, and while I appreciate that they offer 'second chance' lending and so do provide credit to applicants with lower than average credit scores, I still don't consider it fair or reasonable to provide any amount of credit to an individual who had defaulted on a credit account only a few months previously, and who had defaulted on a further credit account within a further six months – events which I consider to be a clear indicator of probable current financial difficulty at that time.

I'm therefore satisfied that the provision of further credit to Mr C under those circumstances didn't take fair or reasonable account of the risk that the credit provided to Mr C would serve to enable Mr C to get even further into an unsustainable level of debt. And I'm further satisfied that, had NewDay obtained the accurate information about Mr C's credit file position that they should have done at the time of the application, that NewDay should have made the decision to not provide any further credit to Mr C.

I realise that this won't be the outcome that NewDay were wanting here, but it follows that I'll be upholding this complaint in Mr C's favour. I trust that NewDay will understand, given what I've explained, why I've made the final decision that I have.

Putting things right

NewDay must reimburse to Mr C's credit account all interest, fees, and charges incurred or accrued on the account since inception.

If these reimbursements result in a credit balance on the account in Mr C's favour, NewDay must pay that balance to Mr C along with 8% simple interest calculated to the date of repayment.

NewDay must also remove all adverse credit reporting from Mr C's credit file relating to this account from inception.

Finally, NewDay must make a payment of £50 to Mr C as compensation for the trouble and upset this matter has caused. This payment may not take the form of a credit to Mr C's NewDay account unless Mr C gives his permission for it to do so.

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 Mr C to accept or reject my decision before 29 November 2021.

Paul Cooper

Ombudsman