

## **The complaint**

Miss C is unhappy that NewDay Ltd increased the credit limit on her credit account on several occasions, all of which she feels were unaffordable for her at those times.

## **What happened**

In March 2018, Miss C applied for a NewDay administered credit account. Her application was accepted, and NewDay provided Miss C with a credit account with an initial credit limit of £300.

In July 2018, NewDay increased the credit limit on Miss C's account to £1,300. Further credit limit increases followed in November 2018 and January 2019, to £2,000 and £3,750 respectively.

In 2021, Miss C raised a complaint with NewDay because she felt the later credit limit increases had been unaffordable for her at those times, and that this should have been apparent to NewDay, had they undertaken checks into her financial position before approving her for those increases.

NewDay looked at Miss C's complaint. They confirmed that in all instances they had undertaken checks into Miss C's financial position before offering credit to her. NewDay also explained that there had been nothing resulting from these checks which they felt should have given them cause to suspect that Miss C might not be able to afford any of the credit being offered to her. Because of this, NewDay didn't uphold Miss C's complaint.

Miss 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 didn't feel that the information that NewDay had assessed before increasing the credit limit from £300 to £1,300 did reasonably suggest that Miss C would in all likelihood be able to afford such an increase. So, they recommended that this complaint be upheld in Miss 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 checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

NewDay contend that they did that here and note that before approving Miss C's initial application for credit they took details from Miss C of her annual income to assess whether they payments that might become due on the account would likely be affordable for her.

NewDay also confirm that they reviewed information about Miss C obtained from a credit reference agency to get a better understanding of Miss C's wider financial position at that time. And NewDay maintain that there was nothing resulting from these checks that should reasonably have given them cause to suspect that Miss C might not be able to afford the credit account with an initial credit limit of £300.

Having reviewed the information that NewDay assessed in this regard, it's notable that Miss C confirmed to NewDay that her annual income at the point of application was £17,799. This equates to a net monthly income of approximately £1,300.

Miss C also confirmed to NewDay that she was living in rented accommodation, and the information that NewDay obtained from the credit reference agency included that Miss C had six historical defaults with a combined default balance of £13,800, as well as an outstanding payday loan with a balance of £804.

Given Miss C's relatively low monthly income at that time, as well as her high levels of existing credit commitments – which totalled approximately 80% of Miss C's gross annual income – I find it difficult to conclude that any further provision of credit was affordable for Miss C at that time, especially without a more detailed analysis of Miss C's expenditure, including her rental and other essential expenditure, which I feel the information referenced above should have promoted NewDay to investigate and which NewDay notably didn't undertake.

However, Miss C has confirmed that she was looking to improve her credit score at that time and that it was through a third-party credit score improvement website that she was approached by NewDay and offered a credit account with the reasonably low credit limit of £300. And Miss C has further confirmed that she felt this low credit limit was manageable for her and that she was happy with it. And so, on that basis it does seem reasonable to me that NewDay would have approved Miss C for a new credit account with an initial credit limit of £300 in March 2018.

But in July 2018, just four months after approving Miss C for a credit account with a £300 credit limit, NewDay increased the credit limit on the account by over 430%, to £1,300. Very little appears to have changed in regard to Miss C's personal and financial circumstances to have prompted such a dramatic credit limit increase, and it's notable that Miss C still had a significant combined default balance and was still paying off her payday loan, such that her debt to income ratio remained prohibitively high.

Furthermore, in the two months immediately preceding the credit limit increase, Miss C had used the NewDay credit account to withdraw cash and had incurred charges on the account as a result. Because of such cash withdrawal charges, using a credit account to withdraw cash is a high cost way for an individual to withdraw cash, and I feel that this should have been highly suggestive to NewDay that Miss C might have been struggling financially at that time, such that the provision of further credit to her might not be in her best interests.

Ultimately, taking all the information above into consideration, I don't feel that it was fair and reasonable for NewDay to have increased the credit limit on Miss C's account in the manner that they did here, and I'm satisfied that the information that was available to NewDay at that time should have reasonably given NewDay cause to suspect that Miss C might not be able to afford any further credit at that time such that further credit shouldn't have been offered to her.

All of which means that I'll be upholding this complaint in Miss C's favour on the basis that I feel that the credit limit increase from £300 to £1,300 that took place in July 2018 shouldn't have been provided to Miss C by NewDay.

I realise that this might not be the outcome that NewDay were wanting, but I trust that they'll understand, given all that I've explained, why I've made the final decision that I have.

### **Putting things right**

NewDay must reimburse to Miss C's account all charges and fees incurred on the account after the point of the credit limit increase in July 2018.

NewDay must also reimburse to Miss C's account all interest accrued on any portion of the account balance over £300 from the point of the credit limit increase in July 2018.

If these reimbursements result in an account balance in Miss C's favour, NewDay must pay this balance to Miss C along with 8% simple interest calculated to the date of payment.

If, following the above reimbursements, a balance remains outstanding for Miss C to pay, NewDay should provide appropriate forbearance to Miss C if necessary to help her to pay back that balance, ensuring that no interest is accrued on any portion of the balance that remains over £300.

Finally, NewDay must remove all adverse credit reporting relating to this account from July 2018 onwards.

### **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 Miss C to accept or reject my decision before 25 April 2022.

Paul Cooper  
**Ombudsman**