

## **The complaint**

Mr and Mrs R are bringing this complaint on behalf of their late son, M, against NewDay Ltd (NewDay). They believe NewDay acted irresponsibly in giving M a credit card and subsequent credit increase.

## **What happened**

Mr R said that NewDay agreed a credit for M in April 2018 with an initial credit limit of £1200. NewDay then increased this credit limit to £2950 in July 2019. Mr R says NewDay should neither have agreed the credit card nor increased the credit limit as it would have known that M had a poor credit history which included a county court judgment in 2014.

NewDay said its initial checks revealed a low level of debt with no arrears or active debt management plans. A public record and defaults were recorded 42 and 16 months earlier. It said it offers second chance lending to those with low or poor credit scores but starts with low credit reviewing the account prior to any credit, increase. It felt the credit increase it applied, which M didn't have to accept, was appropriate given the management of his account. It also said, when it became aware of M's death as a gesture of goodwill it reduced the overall debt by a total of £177.73 (the charges applied from November 2019 to January 2020)

Our investigator didn't uphold the complaint. He found that NewDay hadn't been irresponsible in giving M a credit card. And that although M had exceeded his credit limit four times this had been offset by then remaining within his credit limit, and by making substantial payments over and above the minimum payments due. He didn't feel he had enough reason to say the increase NewDay applied to the account was irresponsible.

NewDay accepted this view but Mr and Mrs R on behalf of M's estate didn't.

Mr R said M had serious mental health problems with the continual chasing from debt agencies. He felt NewDay's decision to give M credit added to M's stress.

Our investigator considered these points but didn't change his view. Whilst he empathised with Mr and Mrs R's comments, he felt NewDay had done enough to check M's financial situation at the time of his credit application and he didn't find the lending was unaffordable.

## **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.

I do appreciate the difficult and stressful situation Mr and Mrs R find themselves, in dealing with the estate of their late son M.

I know Mr R has made the point that other financial institutions, on M's death wrote off his outstanding debts. I need to make it clear that in this decision I can only consider NewDay's

actions. Just because other organisations have written off outstanding debts doesn't mean that NewDay automatically must do so.

Mr R has told us several times that as M had debts that, on that basis alone, NewDay shouldn't have offered credit. However just because a consumer has had or has a history of debt doesn't automatically mean it's wrong to offer credit. If that were the case, then no consumer would ever have a 'second chance'.

NewDay has told us that it offers second chance lending to those with low or poor credit scores. This is based on a 'low and grow' model where it initially offers low credit only increasing the limits when the account management supports that. This can help those with a poor credit history to improve their credit ratings

It has also pointed out it advised M of the credit increase giving him the opportunity to opt out of them. Whilst that may be the case that doesn't take away its obligations to lend responsibly

Before agreeing to an initial credit application and to a credit increase a business needs to ensure it does so in a responsible manner. There isn't a set requirement of what a business must do in every instance. But they are expected generally to carry out appropriate and proportionate borrower focused checks around the affordability of any lending, before providing it, and to ensure a borrower can afford to make and sustain the repayments, taking account of their financial situation

So, I need to consider in the case of both the initial application and the credit increase if NewDay met these obligations. Or if there were further checks it should have carried out to ascertain the suitability of the proposed increases including M's ability to manage repayments.

In terms of the initial credit application from the information NewDay has given us M was a homeowner and employed with a salary of £32000. It carried out credit checks which showed he had no active debt management plans in place and no arrears.

This search did reveal a county court judgement from 2014 and defaults of a total value of £5700 with the last default applied in 2016. As both the last default and county court judgement were some considerable time prior to M's credit application I don't think it was unreasonable for NewDay to offer a credit card with an initial modest limit of £1200. This seems to be in line with its stated 'low and grow model'

I appreciate Mr R has given us information of previous debts M had. But two of these dates to 2010 some considerable time before NewDay agreed the credit card. So, I don't think this is information, if available to NewDay, would have reasonably led NewDay to conclude that the initial credit was either irresponsible or unaffordable.

Mr R has shown M was paying back several loans at £20 per month. I am not persuaded that NewDay was aware of this since it told us its searches showed M had no active repayment plans in place. One of the repayment plans was dated 2013 which may explain why NewDay was unaware of it.

I have considered very carefully if it is information that should have led NewDay to conclude offering credit would impact on M's financial situation, but I don't think that it would. The repayments were modest ones which given Ms income don't appear unaffordable at the time of his credit application to NewDay.

Taking all of the information I have into account and given the type of lender that NewDay is I think it undertook a reasonable credit assessment which I don't think gave it grounds to

believe that its credit would have impacted on Ms financial situation. I don't believe it was irresponsible in offering the initial credit that it did.

In considering the increase NewDay applied to M's account in July 2019 NewDay had, by this time, the additional information as to how M was managing his account.

I think NewDay adopted a very cautious approach in increasing M's credit limit.

In February 2019 M's account was reviewed and as a result he was offered a credit increase to £2200 confirmed in a letter to him that day. However, that increase, as I understand it didn't go ahead, as in March 2019 NewDay identified that M had exceeded his credit limit over the previous four months although I have noted the excess was at a modest level of between £22-29. I am not sure why NewDay offered the credit increase in February 2019, but I think it acted correctly in not going ahead with this when it realised M had exceeded his credit limit as described above.

I understand M then himself asked for a credit increase in April 2019, but this was declined due to having previously exceeded his credit limit. Again, I can't fault NewDay for this decision.

In June 2019 NewDay did offer M a credit increase taking his limit to £2950 on the basis he had stayed within his credit limit since March 2019. And he hadn't made any late payments since his account was opened. NewDay confirmed this increase in a letter which I have seen to M. The letter did give M the chance to opt out of this increase if he wanted to do so.

I have seen M's account statements myself. I can see from these M often made significant payments over and above the minimum amount due both before and after the credit increase. For example, in March 2019 he paid £500 when the minimum payment due was £23 and in August 2019 he paid £545 when the minimum payment due was £45.24. The payments he made above the minimum due varied from £300 to just under £1000. This indicates to me that M was managing his account and I don't believe there were grounds for NewDay to be concerned. So, I don't feel NewDay's decision to offer a credit increase was irresponsible.

I appreciate Mr and Mrs R have referred to M's vulnerability and they feel the stress of being pursued by debt management companies contributed to his early death. As far as I am aware NewDay wasn't pursuing M for any debts prior to his death. And I am not aware that M made NewDay aware he was struggling.

We do expect businesses to respond positive and sympathetically when consumers are having financial or other problems. But it's difficult to expect businesses to take any action when they are not aware of issues.

I do appreciate that it can be difficult for anyone to ask for help. But I don't believe, based on the information that it had, that NewDay acted irresponsibly in offering credit. And I think based on the account history the credit increase was not unreasonable particularly given the caution NewDay applied prior to offering the credit increase.

Having not found NewDay to have done anything wrong I can't reasonably ask it to write off the outstanding debt as Mr and Mrs R have requested. But I am pleased that NewDay, as a gesture of goodwill, reduced the debt by the charges it applied in November 2019 to January 2020. That feels to me to have been an appropriate thing to do.

### **My final decision**

My final decision is that I don't uphold this complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask the estate of Mr R to accept or reject my decision before 21 December 2021.

Bridget Makins  
**Ombudsman**