

The complaint

Mr L complains that NewDay Ltd was irresponsible in its lending to him. He wants the interest and charges on his credit cards refunded and the accounts removed from his credit file.

What happened

NewDay provided Mr L with two credit cards. He says that at the time the cards were provided, and the credit limits increased he was in a spiral of debt, reliant on payday loans and credit card debt. He says that by providing the credit cards and increasing the limits NewDay made his situation worse, causing him stress and affecting his health.

NewDay didn't uphold Mr L's complaint about irresponsible lending and Mr L referred his complaint to this service.

Our investigator didn't think that it was wrong to provide the first credit card (card 1) with a limit of £600 in July 2015. She thought the checks carried out before this account and credit limit were provided were reasonable. She also didn't think it unreasonable that the limit was increased by £1,000 in October 2015, noting no payments had been missed up to that point. However, she didn't think the next two increases should have been applied (May 2016 and December 2016). She said although Mr L was meeting his contractual payments he wasn't paying large amounts to help reduce his debt and that each time he had a limit increase he would spend near to the maximum. She noted that Mr L was taking out payday loans before the third and fourth limit increases. Overall, she didn't think the checks were sufficient at this stage and thought that had further checks taken place before the third and fourth limit increases, it would have been clear that Mr L was struggling financially.

Regarding card 2, our investigator didn't find it unreasonable that this credit card account was provided in October 2016 with a credit limit of £600 or that an increase in the limit to £800 was applied a few months later. However, she didn't think that the limit increase of £800 (taking the overall limit to £1,600) in June 2017 was proportionate.

Overall, our investigator partially upheld this complaint. She recommended that Mr L be reimbursed all interest and charges applied from the time of the increase on card 1 in May 2016 to date and the increase on card 2 in June 2017 to date.

NewDay didn't agree with our investigator's view. It said that Mr L's income was declared when the accounts were opened and when the account is reviewed for credit limit increases it uses other external data in its affordability model. In terms of payday lending NewDay said that it wasn't obliged to have multiple credit reference agency data up to March 2016 and payday data wasn't available to it until that time. It said the presence of payday loans wouldn't be a sole reason to prevent a credit limit increase.

NewDay said that by increasing Mr L's credit limit it was providing him with a facility and he could have declined the increases or not used the card to its limit. It noted that our investigator had looked at information in Mr L's bank statements but said that it didn't have this information and the data available to it didn't suggest Mr L was in financial difficulty. It

said its approach was in line with the rules regarding credit worthiness at the time of the increases and that it wasn't required to ask for a customer's banks statements or payslips.

My provisional conclusions

I issued a provisional decision on this complaint. I concluded in summary:

- Card 1 was provided in July 2015 with a credit limit of £600. While Mr L had some adverse information recorded on his credit file I didn't think the information noted was such that the lending should have been refused. Based on a credit limit of £600 I thought the checks carried out were proportionate and I didn't think these raised concerns that meant further checks should have taken place. The information gathered didn't raise concerns about the affordability of the card and so I didn't think I could say Card 1 shouldn't have been provided.
- The limit on card 1 was increased by £1,000 three months after it was provided. This was a significant increase but as Mr L was maintaining his payments and based on the previous information he had provided; I didn't think I had enough to say that further checks were needed before this new limit was applied.
- Mr L increased his use of card 1 to near the new limit in the first month and spent over the limit in December 2015, January 2016 and April 2016. He was making payments towards the account suggesting he was meeting the minimum contractual requirements however he wasn't making any significant inroads into the debt. When the payday loan information started to be gathered Mr L was shown to be making use of payday loans. Given this, and that he wasn't maintaining the account in line with the terms (that is he was over the limit in three months between December 2015 and May 2016) I didn't think that a further limit increase should have taken place without further checks to ensure that the additional lending was sustainably affordable for Mr L.
- I thought that before the increase was applied in May 2016, NewDay should have carried out a thorough review of Mr L's financial situation. Had this happened, it would have realised that Mr L was struggling to manage his money and was also making frequent use of gambling sites. I thought this should have raised serious concerns that meant providing further credit to Mr L wasn't responsible.
- In October 2016 Mr L applied for a second credit card with NewDay. Mr L already had a £2,200 credit limit on card 1 and was making use of most of that facility. As I thought a thorough check of Mr L's financial situation should have happened in May 2016 and this would have identified that Mr L was struggling to manage his money and using gambling websites, I didn't think it reasonable that any further credit would be provided, in this case in the form of a new credit card, unless there was evidence to show Mr L's financial situation had improved significantly.
- I looked at the information provided, and saw that Mr L was still struggling to manage his money, his debts were increasing, and he was making use of gambling websites at the time card 2 was provided. So, I didn't find there had been a significant improvement in Mr L's financial situation and didn't think NewDay acted responsibly by providing this credit card.

In summary, I didn't think that NewDay should have provided the increase in credit limit on Mr L's first card in May 2016 (or any subsequent increase) or provided him with the second credit card in October 2016.

NewDay accepted my provisional decision. Mr L responded to my provisional decision asking whether 8% interest should be added to the refunds I had suggested.

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.

Mr L was provided with two credit card accounts, both of which are operated by NewDay. As I set out in my provisional decision, I think the checks carried out before the first credit card was provided were proportionate and as these didn't raise concerns about the affordability of the lending I don't think it was wrong that NewDay provided Mr L with a credit card limit of £600 in July 2015. I also do not think there is enough evidence to say that it was wrong to apply the first increase in the credit limit. However I think further checks should have taken place before the credit card limit was increased in May 2016 and had this happened, NewDay would have realised that Mr L was struggling to manage his money and that it wasn't responsible to provide him with further credit at this time. I didn't see any significant change in Mr L's circumstances before the second credit card was provided and as I didn't think it responsible for further credit to be provided I didn't think that NewDay should have provided the second credit card.

Mr L asked whether 8% simple interest would be added to the refunds I had set out in my provisional decision. I understand why he has asked about this as in certain cases interest is applied to compensate a consumer for payments made which are subsequently required to be refunded. However, in this case, Mr L has been in debt with NewDay for the period this complaint relates to. Interest payments would only be applied if he had made overpayments on his account, that is the refunds result in the debts being cleared and a balance remaining. I have addressed this in the redress below but as I believe there is likely to be an outstanding balance after the refunds have been applied, I do not think it likely that interest will be applicable in this case.

Putting things right

My final decision is that I partially uphold this complaint. In the event the accounts have been sold, NewDay Ltd should buy these back and take the actions set out below. If this isn't possible, or NewDay isn't willing to do this, then it should work with the new owner to ensure the actions below are taken.

NewDay Ltd should:

- refund Mr L all interest and charges applied from the time of the increase on card 1 in May 2016 to date;
- refund Mr L all interest and charges applied on card 2;
- remove any adverse information recorded about card 1 from May 2016 and any adverse information recorded about card 2 from Mr L's credit file;
- if Mr L still has outstanding balance on his cards after the refunds above NewDay should work with Mr L to ensure a suitable repayment plan based on Mr L's income and expenditure at the time it is set up. If, after the refund, there is a positive balance, 8% simple interest* should be added to any overpayment from the date the overpayment arose to the date of settlement.

HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Mr L a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold this complaint. NewDay Ltd should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 1 February 2022.

Jane Archer
Ombudsman