

The complaint

Miss L complains that NewDay Ltd lent irresponsibly when it approved her credit card application and later increased the credit limit.

What happened

Miss L applied for a credit card with NewDay in September 2013. Miss L told NewDay she was earned £14,000 a year and the application noted there was other household income of £7,000. NewDay says the application was approved in line with its lending criteria and a credit limit of £250 was put in place.

The credit limit increased over time as follows:

January 2014 from £250 to £500
16 February 2015 from £500 to £1,000
16 July 2015 from £1,000 to £1,750
16 December 2015 from £1,750 to £2,500
7 July 2016 from £2,500 to £3,500
18 January 2017 from £3,500 to £4,700
17 April 2018 from £4,700 to £6,700
18 October 2018 from £6,700 to £7,650

NewDay says that each credit limit increase was approved after checks were completed, in line with its lending criteria.

In 2020 Miss L contacted NewDay as she was experiencing financial difficulties. NewDay agreed to accept lower payments as part of a plan.

Miss L complained that NewDay had lent irresponsibly but it didn't agree. Miss L referred her complaint to this service and it was passed to an investigator. The investigator upheld Miss L's complaint as they thought the credit limit increases that took place from February 2015 were irresponsible. NewDay asked to appeal, so Miss L's complaint has been passed to me to make a 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.

Our investigator recently got in touch with both parties to confirm that this decision is going to focus on the credit limit increases that took place in the six years before Miss L complained - in line with our rules. So I'm not going to make a finding on whether NewDay lent irresponsibly when it approved the credit card application and went on to increase Miss L's credit limit to £500 in January 2014.

Before agreeing to lend, the rules say NewDay had to complete reasonable and proportionate checks to ensure Miss L could afford to repay the debt in a sustainable way.

These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate.

I've looked at the credit limit increase from February 2015 when it went up to £1,000. I note the risk data NewDay has provided shows Miss L's balance was over the limit from May to July 2014 and that she missed the payment entirely in August 2014. In addition, Miss L has provided a copy of her credit file. I can see that in the year prior to the credit limit increase, Miss L had multiple payday loans on her credit file and I think that should've further indicated to NewDay she was having trouble making ends meet. In response to the investigator, NewDay says it wasn't required to "have payday loan information prior to March 2016". But the rules did require NewDay to ensure it lent responsibly and I'm satisfied that included taking account of regular outgoings regardless of the sort of credit.

Having considered all the available information, I'm satisfied there were signs at this early stage Miss L was reliant on credit to make ends meet. And I think that should've caused NewDay to carry out better checks.

It follows that if I think NewDay lent irresponsibly when it increased Miss L's credit limit to £1,000, higher credit limit increases were also irresponsible. I've looked at follow up credit limit increases to see if there was any indication that Miss L's circumstances had improved or that subsequent credit limit increases were reasonably approved.

NewDay increased the credit limit to £1,750 in July 2015. I can see Miss L's account was over the agreed credit limit in the three months preceding the increase. I'm satisfied that should've caused NewDay to consider completing better checks.

The credit limit was increased to £2,500 in December 2015 but the balance was over the agreed credit limit for two out of the preceding four months. I think this should've caused NewDay to consider completing better checks to verify Miss L was able to support higher levels of borrowing.

In July 2016 NewDay increased the credit limit to £3,500. I can see its risk data shows it picked up previously unknown credit card balances around of £6,000 during this period. In addition to the previous information NewDay had about Miss L, I think the fact she had a substantial new credit commitment should've caused NewDay to carry out more comprehensive checks before increasing the credit limit further.

In November 2016 Miss L's balance exceeded the credit limit and she incurred a fee. NewDay increased Miss L's credit limit to £4,700 in January 2017, two months later. In addition, I can see the level of unsecured credit with other lenders had increased to around £7,500, in addition to Miss L's balance of £3,500 with NewDay. At this point the information NewDay had collected during the original application was around three years old and Miss L's level of indebtedness had increased substantially. I think NewDay should've thought carefully before increasing Miss L's credit limit further and carried out better checks.

In May 2018 NewDay increased the credit limit by £2,000, to £6,700. An increase of that size is significant. In addition, Miss L's external debt had gone up further to £11,500 and the account balance had exceeded the agreed credit limit several times in the previous year. There were lots of signs that should've caused NewDay to complete more comprehensive checks before increasing Miss L's credit limit.

The final increase took place in November 2018 when the credit limit was set at £7,650. That's £7,400 more than the initial credit limit approved and by this time Miss L owed around £17,000 to other businesses and around £4,600 to NewDay. In line with previous credit limit increases, I'm satisfied there were clear indications Miss L was reliant on credit and that NewDay should've completed better checks.

Had NewDay carried out more comprehensive checks like getting evidence of Miss L's income or asking for bank statements to get a picture of her circumstances, I think it would've found that she was reliant on unsecured credit to make ends meet and that her position was unsustainable in the long term. In line with the above, I'm satisfied NewDay lent irresponsibly when it approved the credit limit increase from £500 to £1,000 in February 2015. And I'm satisfied NewDay lent irresponsibly when it approved all the subsequent credit limit increases as well.

As a result, I'm upholding Miss L's complaint and directing NewDay to refund all interest, fees and charges applied to her credit card from February 2015 to date.

In addition, I don't think it's fair for NewDay to record any adverse information on Miss L's credit file where it lends irresponsibly. So I'm also telling NewDay to amend Miss L's credit file to remove all adverse information reported about the credit card from February 2015 to date.

My final decision

My decision is that I uphold Miss L's complaint and direct NewDay Ltd to settle as follows:

- Refund all interest, fees and charges applied to Miss L's credit card from February 2015 to date
- If an outstanding balance remains once the adjustments have been made, NewDay should contact Miss L to discuss a suitable repayment plan
- If the effect of refunding all interest, fees and charges leaves a credit balance, the balance should be treated as overpayments and returned to Miss L along with 8% interest† from the date they were made until the date of settlement
- Remove all adverse information recorded on Miss L's credit file in relation to this credit card from February 2015 to date

† HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Miss L a certificate showing how much tax it has taken off if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 10 March 2022.

Marco Manente
Ombudsman