

The complaint

Ms J complains that NewDay Ltd trading as Fluid Mastercard (“NewDay”) was irresponsible in raising the credit limit on her account.

What happened

In April 2019, Ms J opened a credit card account with NewDay. The credit limit was £900. In August 2019, NewDay increased the credit limit to £2,150. In February 2020, NewDay increased the credit limit again, to £3,150.

In 2021, Ms J complained to NewDay. She said that these increases hadn’t been appropriate and that, if NewDay had made suitable checks at the time, it would have seen that her financial position didn’t support them. She said they had the effect of increasing her monthly minimum payment and putting her under increased financial hardship.

NewDay didn’t uphold the complaint. It said that, as a second chance lender, it accepts some negative information on a customer’s credit file when assessing credit card applications, because its accounts are designed to help customers with a lower credit rating. It said it carried out an in-depth evaluation before each increase to Ms J’s credit limit and that the increases had been made correctly, in line with its lending policy. NewDay also said that Ms J had the opportunity to opt out of each increase but didn’t do so.

Ms J wasn’t happy with NewDay’s response and asked this service to look at the complaint. Our Investigator didn’t think the increases had been affordable. He recommended that NewDay refund the additional interest and charges which Ms J has paid from the date of the first credit limit increase in August 2019. NewDay didn’t agree, so the complaint has been referred to me to review.

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.

There are industry rules and best practice guidelines which apply to credit limit increases for credit cards. In line with these, I’d expect a business to assess a customer’s creditworthiness and consider how their financial situation may be adversely affected before significantly increasing their credit limit.

From the information I’ve seen, I’m satisfied that NewDay made checks before increasing Ms J’s credit limit. But I need to consider whether those checks were appropriate and, if so, whether it’s decision to increase the limit was reasonable, based on the information it obtained.

NewDay says that both the credit limit increases were made in line with its lending policy. It says that at no time did Ms J incur late payment fees or over-limit fees. It says there was no large retail spending or cash spending by Ms J, and she didn’t use up all the available credit when the increases were made. It says that the large part of Ms J’s initial spending on the

card was from balance transfers. I've thought about what NewDay says and I think all these factors were relevant considerations. But I don't think they told the full story of Ms J's finances or meant that the increases would be affordable.

When Ms J applied for the credit card, NewDay set a credit limit of £900. It said in its final response letter *"You met our acceptance criteria and as a result, you were provided with our card and a credit limit of £900 was given, which we believe was appropriate given your circumstances"*. It says that, before the credit limit was increased, it carried out adequate checks to ensure the new limits were affordable. It says that neither Ms J's card use nor information from the Credit Reference Agencies indicated that the credit limit shouldn't be increased.

But the information I've seen doesn't show any significant change in Ms J's finances from the time the account was opened to the time of the first increase, or in between the two increases. I haven't seen anything which suggested that she had become able to afford a higher level of borrowing, particularly taking into account the amount of borrowing compared to her income.

I'm not satisfied that NewDay did enough to establish that the credit limit increases were affordable, especially as they were significant increases. NewDay thought that £900 was an appropriate credit limit in April 2019. I don't think the data showed Ms J's financial situation to have changed by August 2019 so as to make a limit of £2,150 affordable. Likewise, I'm not satisfied that the data showed £3,150 to have become affordable six months later. Ms J's circumstances hadn't changed in a way which supported these increases and she says they weren't affordable.

I realise that lenders may sometimes grant a small initial credit limit and then increase it in stages. But I'd only expect the lender to increase the limit if the card was used responsibly and other data indicated that the customer would be able to manage a higher limit. Here, the initial credit limit wasn't particularly small. And, although Ms J was using the card responsibly, I'm not satisfied that the other information available to NewDay indicated that she could manage a higher level of borrowing.

In light of this, I don't think it was reasonable for NewDay to increase the credit limit on either occasion.

I'm satisfied that NewDay gave Ms J notice of the credit limit increases and that she had the chance to opt out of them. But, if a customer is struggling financially, I don't think it's necessarily reasonable to expect them to turn down an unsolicited increase in credit.

I think the fair outcome here would be for NewDay to refund the interest and charges which Ms J has paid as a result of the credit limit increases and ensure that no such interest or charges are applied going forward. This means that Ms J shouldn't be charged interest on any balance over £900 from the date of the credit limit increase in August 2019 onwards. Any charges which wouldn't have arisen if the credit limit had remained at £900 should also be refunded. The refunds should be applied to any outstanding balance. If the amount to be refunded exceeds the outstanding account balance, the surplus should be paid to Ms J with interest.

Ms J has also complained that, while she was on a payment plan, NewDay reported her account as being in arrears which negatively affected her credit file. Our Investigator suggested that the parties should await the outcome of the refund calculation (as set out above) to see how that affects Ms J's account balance. I think that's a sensible approach. Once the issue of the credit limit increases has been resolved in the way I have set out, the parties should review the status of the account and work together to agree how the credit file

should be dealt with. If the parties can't reach agreement and Ms J wishes this service to look into it, that issue will need to be investigated separately by this service.

My final decision

For the reasons above, I uphold this complaint. NewDay Ltd trading as Fluid Mastercard should:

- refund any interest paid by Ms J on any balance over £900 from the date of the credit limit increase in August 2019 onwards;
- refund any charges paid by Ms J which wouldn't have arisen if the credit limit had remained at £900;
- recalculate Ms J's account balance and remove any such interest or charges which have been applied but not yet paid by Ms J;
- ensure that no such interest or charges are applied to the account going forward;
- apply the refunds to any outstanding balance on Ms J's account; and
- if the amount to be refunded exceeds the outstanding account balance, pay the surplus to Ms J together with simple interest at 8% a year on the surplus from the date of this decision until the date of settlement.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms J to accept or reject my decision before 25 February 2022.

Katy Kidd
Ombudsman