

The complaint

Mrs S is unhappy that NewDay Ltd provided her with a credit account which she feels was unaffordable for her at that time. Mrs S is also unhappy that NewDay increased the credit limit on her account on several occasions, all of which she feels were unaffordable for her at those times.

What happened

Mrs S applied for a NewDay credit account in January 2019. NewDay approved Mrs S's application and she was issued with a credit card with an initial credit limit of £900.

In June 2019, NewDay increased the credit limit on Mrs S's account from £900 to £2,150. Further credit limit increases took place in September 2019, February 2020, November 2020, and March 2021, by which time the credit limit on Mrs S's account had been increased to £8,000.

In April 2021, Mrs S raised a complaint with NewDay on the basis that she felt that she hadn't been able to afford the credit that had been provided to her, and that NewDay should have recognised this before issuing the credit and then increasing the amount of credit available to her.

NewDay looked at Mrs S's complaint. But they felt that they'd undertaken checks into Mrs S's financial position before approving her for credit and before increasing the credit limit on her account, and that in all instances there'd been nothing resulting from these checks that should have given them cause to suspect that the credit being offered to Mrs S wasn't affordable for her at those times. So, they didn't uphold Mrs S's complaint.

Mrs S wasn't satisfied with NewDay's response, so she referred her complaint to this service. One of our investigators looked at this complaint. They felt that the information that NewDay had assessed when Mrs S had first applied for the credit account, including information provided to NewDay by Mrs S, was such that it hadn't been unreasonable for NewDay to have approved Mrs S's application for credit at that time.

However, our investigator didn't feel that NewDay had undertaken reasonable and proportionate checks into Mrs S's financial position before they'd increased the credit limit on her account, and they also felt that if NewDay had undertaken such checks that it was more likely than not that NewDay should have concluded that Mrs S might not be able to afford the additional credit under consideration, such that the credit limit increases shouldn't have been implemented. Our investigator therefore recommended that this complaint be upheld in Mrs S's favour for this reason.

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.

I issued a provisional decision on this complaint on 30 December 2021 as follows:

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 borrower focussed checks to ensure that any credit being offered to a customer is affordable for that customer at that time.

With regard to Mrs S's initial application for credit, NewDay appear to have done that here. They took details from Mrs S of her annual income and employment status, and they obtained additional information about Mrs S's wider financial position from a credit reference agency. And, having considered this information, I'm satisfied that it was reasonable for NewDay to have approved Mrs S's application for credit and to have issued her with a credit card with an initial credit limit of £900.

However, I'm not convinced that NewDay took reasonable and proportionate steps to ensure that the subsequent credit limit increases that they offered to Mrs S were affordable for her before they were implemented.

One reason I say this is because, at the time of the initial credit application, Mrs S had an annual income of £7,000. Additionally, given that Mrs S was retired, it's unlikely that her level of income would have increased. Furthermore, at the time of the initial credit application, Mrs S's credit file confirmed that Mrs S had other existing debt totalling £2,400.

As such, while I feel that it's more likely than not that Mrs S would have been able to afford the potential repayments that might become due on an account with a £900 credit limit, I'm not convinced that NewDay did enough to confirm that Mrs S would have been able to afford the potentially higher repayments that may have become due following NewDay increasing the credit limit on her account to £2,150, which NewDay did in June 2019.

NewDay contend that they did undertake checks into Mrs S's ability to afford the additional credit being offered to her before implementing any credit limit increases, and these checks included reviewing how Mrs S had managed her account in the months leading up to a credit limit increase, and also a review of updated information obtained from a credit reference agency to refresh their understanding of Mrs S's wider financial position.

However, while I acknowledge that, in the months immediately preceding the first credit limit increase in June 2019, there was nothing in how Mrs S had managed her NewDay account which might suggest that she was struggling to afford the repayment or that she was in financial difficulty, it is evident from the information obtained from the credit reference agency at that time that Mrs S's total amount of other credit had increased to approximately £3,900, which was over half of Mrs S's previously declared annual income of £7,000.

This means that by increasing the credit limit on Mrs S's account by a further £1,250, NewDay were increasing Mrs S's total level of potential indebtedness to a level that I feel may have been unsustainable for Mrs S.

It's also evident that NewDay didn't contact Mrs S at the time that they were proposing increasing the credit limit on her account to confirm with her directly that her income hadn't reduced in the time since the account was opened. NewDay may point out that the first credit limit increase only took place five months after Mrs S declared her income to them, but given Mrs S's low annual income and the significant rise in the amount of credit being offered to her, I feel that it was incumbent on NewDay to have contacted Mrs S and to have confirmed their understanding of Mrs S's financial position before considering implementing any credit limit increase.

And had NewDay contacted Mrs S to question her about her ongoing financial position, I find it difficult to rationalise how NewDay could reasonably conclude that Mrs S would have been able to afford the additional credit they were considering offering. And I say this because Mrs S would in all likelihood have explained to NewDay that she remained retired meaning that her level of income was unlikely to increase and also that she had increasing levels of other credit which already amounted to more than half of her annual income.

All of which means that I find it difficult to conclude that NewDay acted fairly or reasonably towards Mrs S by increasing the credit limit in her account from £900 to £2,150 in June 2019, and it follows that my provisional decision here will be that I'll be upholding this complaint against NewDay on that basis.

This aspect of my decision is the same as that reached by our investigator. However, I don't feel that our investigator's view of this complaint took sufficient account of the upset and inconvenience this matter has caused Mrs S, especially given that NewDay provided later credit limit increases to Mrs S at a time surrounding the unfortunate death of her husband and when she increasingly vulnerable.

Again, it's notable that NewDay didn't contact Mrs S directly before implementing these later credit limit increases, and also that the final amount of credit that NewDay provided Mrs S with was, at £8,000, more than the amount of annual income that Mrs S declared to NewDay at the time of the initial credit application in 2019 and which, as mentioned, is unlikely to have increased.

Finally, I also note that Mrs S recently received a letter from NewDay advising that they were intending to default her account. This has caused additional stress to Mrs S, which has only been compounded by NewDay refusing a request made by this service to refrain from such action while this investigation remains ongoing.

As such, my provisional instructions here will be as follows:

NewDay must reimburse to Mrs S's account all interest, fees, and charges that have accrued or been incurred on the account on the balance of the account above £900 since the time of the first credit limit increase in June 2019.

If these reimbursements result in a credit balance on the account in Mrs S's favour, NewDay must pay this balance to Mrs S along with 8% interest calculated to the date of payment.

If, following these reimbursements, there remains a balance outstanding for Mrs S to repay, NewDay must contact Mrs S and arrange a suitable interest free repayment plan based on an assessment of Mrs S's income and expenditure at that time.

NewDay must also remove all adverse credit reporting relating to this account from June 2019 onwards.

Finally, NewDay must make a payment of £500 to Mrs S to compensate her for the upset and inconvenience this matter has caused. This payment may not take the form of credit to Mrs S's NewDay credit account unless Mrs S gives her permission for it to do so.

In my provisional decision letter, I gave both Mrs S and NewDay the opportunity to provide any comments or further information they wished me to consider before I moved to a final decision. Mrs S confirmed that she was happy to accept my provisional decision, and NewDay confirmed that they had no further information to provide. As such, I see no reason not to issue a final decision upholding this complaint in Mrs S's favour on the basis described above.

Putting things right

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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 Mrs S to accept or reject my decision before 2 March 2022.

Paul Cooper
Ombudsman