

The complaint

Mr M complains that NewDay Ltd lent irresponsibly when it approved two branded credit cards and went on to increase the credit limits.

What happened

Mr M opened an Aqua credit card with NewDay in April 2018. In June 2019 Mr M successfully applied for a Debenhams credit card with NewDay. In his application, Mr M said he earned £40,000. NewDay recorded that Mr M had a net monthly income of £2,531 and other household income of £2,531. NewDay carried out a credit search and found Mr M owed £18,600 in unsecured credit as well as a mortgage. The application was approved with a £1,750 credit limit.

Six months later, in January 2020, Mr M applied for a third credit card with NewDay – a Fluid card. In this application, Mr M gave an income of £40,500 and his partner's income of £9,000 was also recorded. A credit check found Mr M had £29,700 of unsecured credit as well as his mortgage. A credit limit of £900 was approved.

In September 2020 NewDay increased the Fluid credit limit by £1,000 taking it to £1,900. In October 2020 NewDay increased the Debenhams credit limit by £1,500 to £3,250.

Last year, Mr M complained that NewDay had lent irresponsibly but it didn't agree. Mr M referred his complaint to this service and it was passed to an investigator. They said NewDay had lent irresponsibly and asked it to refund all interest and charges applied to Mr M's credit cards. NewDay didn't agree so Mr M'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.

Before agreeing to lend, the rules say NewDay had to complete reasonable and proportionate checks to ensure Mr M 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 think it's fair to note that whilst this complaint isn't about Mr M's Aqua card, he was an existing customer of NewDay when he applied for the Debenhams card in June 2019. Mr M had successfully applied for the Aqua card just over a year earlier and a credit search was completed as part of that application. NewDay has provided evidence to show it found Mr M had around £9,400 of unsecured credit and a mortgage of around £119,000. Whilst the Aqua application doesn't form part of this complaint, I'm satisfied NewDay had already completed an assessment of Mr M's circumstances when he applied for a second credit card and was aware of how much he owed at that time.

I think Mr M's Debenhams application should've caused NewDay to consider carrying out more comprehensive checks. When the application was processed, NewDay found Mr M owed £18,600 in unsecured credit and around £141,000 via a mortgage. That's an unsecured credit increase of just under £9,000 and a mortgage increase of around £20,000. I'm satisfied NewDay was aware of Mr M's previous borrowing and should've seen a clear increase in the amount he owed.

I also think it's fair to note that NewDay's application information doesn't appear to be reliable. I can see NewDay recorded Mr M's monthly income as £2,531 but used the same for his partner. If that was input by Mr M, I think NewDay should've checked whether it was correct. In addition, if NewDay's lending decision was made on the basis of someone else's income, I think it should've carried out better checks to ensure the repayments would be sustainable for Mr M in the long term.

In much the same way, when Mr M applied for the Fluid credit card his outstanding unsecured credit figure had gone up to £29,700, an increase of around £11,000 in about six months. By this time, Mr M had been a customer of NewDay for several years and a clear picture of increasing unsecured debt had arisen. I further note the "other household income" figure NewDay used was given as £9,000. Given the difference between the household income figures provided between the Debenhams and Fluid applications, I think NewDay ought to have asked further questions. In my view, NewDay lent irresponsibly when it approved the Fluid credit card.

The Debenhams credit limit went up to £3,250 in October 2020. That's a substantial increase from the original credit limit. The Fluid credit limit went up to £1,900 a month later. NewDay's risk data shows it found Mr M owed over £32,000 at this time, a further increase in his unsecured credit. Again, I think the level of unsecured debt should've caused NewDay to carry out more comprehensive checks before deciding whether to proceed.

Had NewDay carried out better checks, I think it would've found Mr M was unable to sustainably manage further borrowing and declined both credit card applications. In my view, there were clear signs during both applications that Mr M was struggling and that his borrowing position was becoming unsustainable. Having considered all the available information, I'm satisfied NewDay lent irresponsibly and am upholding Mr M's complaint.

It wouldn't be fair for NewDay to record adverse information on Mr M's credit file relating to credit cards that were lent irresponsibly. So I'm also telling NewDay to amend Mr M's credit file to remove all adverse information recorded about these credit cards.

My final decision

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

- Refund all interest and charges applied to both the Debenhams and Fluid credit cards from inception to the date of settlement

- If, after calculating the refund, there remains an outstanding balance NewDay should ensure it isn't subject to any future charges or interest going forward
- If the refund leaves a credit balance it should be refunded to Mr M adding 8% simple interest
- Remove and cease recording all adverse information about both accounts from Mr M's credit file

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 26 May 2022.

Marco Manente
Ombudsman