

The complaint

Ms L complains that NewDay Ltd lent irresponsibly when it approved two credit cards and increased the credit limit.

What happened

In July 2017 Ms L applied for a Marbles branded credit card with NewDay. In the application, Ms L said she was employed and earned £18,000 a year. NewDay found Ms L had seven defaults totalling £3,900 from around three years before and no other adverse credit. NewDay also found Ms L owed around £8,300 in unsecured credit.

NewDay approved the credit card with a limit of £900. The credit limit was increased to £1,900 in December 2017, £2,650 in June 2018 and £4,000 in December 2018.

In October 2019 Ms L applied for an Amazon credit card with NewDay. In this application Ms L said she was employed with an income of around £21,500. The application also recorded a partner's income of £2,797. NewDay didn't find any new defaults or adverse credit but did find Ms L now owed around £15,300 in unsecured debt. The application was approved with a credit limit of £500.

Ms L's credit card payments weren't maintained and NewDay stopped charging interest in February 2020.

Last year, Ms L complained that NewDay had lent irresponsibly but it didn't agree. Ms L referred her complaint to this service and it was passed to an investigator. They upheld Ms L's complaint and as they didn't feel the checks NewDay completed were proportionate or comprehensive enough. NewDay asked to appeal, so Ms 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.

Before agreeing to lend, the rules say NewDay had to complete reasonable and proportionate checks to ensure Ms 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.

In this case, I've looked at all the lending decisions NewDay made on both cards. I started by looking at the Marbles application. In my view, there was a lack of proportionate checks completed during the application.

Whilst I understand NewDay is a second chance lender and does accept applications from consumers with some adverse credit, Ms L had a reasonable level of defaults within three years of the application, totalling around £3,900. In addition, Ms L owed around £8,300 against an income of £18,000. NewDay hasn't provided any evidence to show it considered Ms L's regular outgoings or living costs and the application doesn't record whether she paid rent or a mortgage. Given the level of Ms L's existing debt, circumstances in the application and previous defaults, I think NewDay should've carried out some better checks before deciding whether to proceed.

Had NewDay carried out better checks, I think it would've found Ms L was struggling and using increasing levels of credit to make ends meet. I think more comprehensive checks would've led NewDay to decline Ms L's credit card application. The information I've seen indicates NewDay lent irresponsibly when it approved Ms L's Marbles credit card application.

It follows that if I think NewDay lent irresponsibly when it approved Ms L's application the follow up credit limit increases were irresponsible too. I've looked at whether there was anything that indicated Ms L's circumstances had improved. The risk data provided shows Ms L's unsecured balance increased and that she regularly used her credit card to withdraw significant levels of cash. Whilst I understand customers can use a Marbles card to withdraw cash, taken with the other supporting information, I think it indicates Ms L was relying on the credit card for day to day spending in an unsustainable manner. In my view, the account activity should've put NewDay on notice Ms L was struggling and unable to support further borrowing. I think NewDay should've carried out better checks before increasing the credit limit.

Had NewDay carried out better checks I think it would've found further signs Ms L was using credit to make ends meet. I'm satisfied the follow up credit limit increases on Ms L's Marbles credit card were irresponsibly approved.

Ms L applied for an Amazon branded card with New Day in October 2019. I can see Ms L gave a higher income figure in this application and NewDay also too details of her partner's income. So, on the face of it, there was more money to support further borrowing. But by this stage, Ms L already owed NewDay around £4,000 via her Marbles card and around £17,000 in unsecured credit. If NewDay wanted to use Ms L's partner's income into account, I think the circumstances of her case should've caused it to ask more questions and obtain further information.

I also note Ms L had taken cash from her Marbles card and gone over her credit limit several times in the months before the Amazon application was approved. In my view, the information NewDay had available should've caused it to carry out more comprehensive checks before approving the Amazon application. Had it done so, I think NewDay would've found Ms L was unable to reasonably support further borrowing and sustainably maintain higher outgoings. I'm satisfied NewDay lent irresponsibly.

As I'm satisfied NewDay lent irresponsibly, I'm going to tell it to refund all interest, fees and charges to both accounts. In addition, I don't think it would be fair for NewDay to report adverse information on Ms L's credit files in relation to debts that were lent irresponsibly. So

I'm also telling NewDay to remove all adverse information it reports about both accounts from Ms L's credit file.

My final decision

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

- Refund all interest, fees and charges applied to both the Marbles and Amazon credit cards, from inceptions onwards
- Once the above refunds have been made, NewDay should administer any remaining balances without applying further interest
- If the above results in a credit balances, NewDay should issue a refund to Ms L along with 8% interest
- Amend Mr L's credit file to remove all adverse information recorded for the Marbles and Amazon credit cards from inception onwards

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms L to accept or reject my decision before 31 May 2022.

Marco Manente
Ombudsman