

## **The complaint**

Ms R, through a representative, says NewDay Ltd irresponsibly lent to her.

## **What happened**

Ms R took out a credit card from NewDay in October 2016, she was given a credit limit of £250. In October 2017 NewDay increased this to £500.

Ms R says the lending was never affordable and this would have been clear to NewDay had it completed adequate checks.

Our investigator said Ms R's complaint should be upheld in part. She found NewDay wasn't wrong to have opened the account initially, but that it should not have increased Ms R's credit limit in July 2017.

NewDay disagreed, saying it acted fairly – it carried out sufficient checks and saw no indicators of financial strain at the time of the limit increase. Ms R had no arrears, no overdraft and hadn't incurred any late payment fees.

As an agreement wasn't reached the complaint was passed to me to make 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

NewDay is required to lend responsibly. It needed to conduct checks to make sure that the credit facilities it was giving to Ms R were affordable and sustainable. Such checks need to be proportionate to things like the credit limits it offered Ms R, how much she had to repay (including interest and charges) each month, her borrowing history with it and what it knew about her circumstances. But there is no set list of checks it had to do.

This means to reach my decision I need to consider if NewDay carried out proportionate checks at the time of the card application and limit increase; if so, did it make fair lending decisions based on the results of its checks; and if not, what better checks would most likely have shown.

### *The card application and initial credit limit*

When Ms R applied for the card I can see NewDay asked about Ms R's employment and residential status and for details of her gross annual income. It completed an external credit search to check her credit history and existing credit commitments. It has provided the data it collected at the time.

I've looked at the data and I can see Ms R told NewDay that she was employed with an annual income of £29,000. The credit check shows that Ms R had three active accounts with a total outstanding balance of £1,700. They were all up-to-date. It did show she had some historic defaults but the most recent was 31 months prior. Given this application was for a relatively low limit, and as her credit check did not return any recent adverse information, I don't think there was anything that should have prompted NewDay to think Ms R was in financial difficulty or that further checks were needed to verify what Ms R had told it.

It follows that I don't think NewDay was wrong to give the card, with its £250 credit limit, to Ms R.

### *The credit limit increase*

Prior to increasing the credit limit to £500 NewDay reviewed Ms R's spending and payment behaviour on her card, as well as the value and status of her external borrowings. I won't comment on whether or not I find these checks to be proportionate, as I don't think NewDay made a fair lending decision based on the information it gathered. I'll explain why.

NewDay could see from its internal data that Ms R was either at or close to her limit from account opening, exceeding it one month with a cash withdrawal – at times an indicator of financial strain. But more critically, from the external credit data it collected it could see Ms R had started using payday loans the month after getting her card, and had continued to do so each month (except in one out of the nine months).

So I disagree with NewDay's position that there were no signs of financial strain. It cites no arrears, overdraft or late fees as evidence of this. But I would argue that such consistent use of high-cost short-term loans shows Ms R was most likely having problems managing her money and was caught in a cycle of borrowing to repay. Most likely that was how she was managing to meet her credit commitment and as NewDay knows the regulator does not consider that to be sustainable borrowing. So I can't see it had the reassurances it needed that extending Ms R's available credit would not be financially harmful for her. It follows I think NewDay was wrong to increase Ms R's credit limit.

In summary, whilst I find NewDay wasn't wrong to approve Ms R's card application and give a £250 opening limit, it should not have increased her limit. And so it follows it's only right it now puts things right.

### **Putting things right**

NewDay should:

- Refund all interest, fees and charges applied to balances over £250 from July 2017 to the date of settlement.
- If the effect of removing these interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Ms R along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement.
- If there remains an outstanding balance NewDay should ensure the current repayment plan once adjusted remains suitable for Ms R.
- Amend Ms R's credit file to remove all adverse information recorded from July 2017 to date.

† HM Revenue & Customs requires NewDay to take off tax from this interest. NewDay must give Ms R a certificate showing how much tax it has taken off if she asks for one.

**My final decision**

I am upholding Ms R's complaint in part. NewDay Ltd must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 20 July 2022.

Rebecca Connelley  
**Ombudsman**