

The complaint

Mr B is unhappy that NewDay Ltd approved him for new and further credit, all of which he feels were unaffordable for him at those times.

What happened

Mr B applied for a NewDay administered credit account in March 2015. His application was successful, and NewDay provided him with a credit account with an initial credit limit of £450. In July 2015, NewDay increased the credit limit on Mr B's account from £450 to £650. A further credit limit increase, from £650 to £850, took place in November 2015.

In January 2021, Mr B raised a complaint with NewDay because he felt that none of the above listed provisions of credit had been affordable for him at those times, and that this should have been apparent to NewDay had they undertaken checks into his financial position before providing him with the credit.

NewDay looked at Mr B's complaint. They confirmed that they had undertaken checks into Mr B's financial position before approving him for new or further credit, and that there'd been nothing resulting from those checks that they felt should have given them cause to suspect that Mr B might not be able to afford the credit he'd been provided. Because of this, NewDay didn't uphold Mr B's complaint.

Mr B wasn't satisfied with NewDay's response, so he referred his complaint to this service. One of our investigators looked at this complaint. They felt that the initial provision of credit and the first credit limit increase had been reasonable, but they felt that the information that had been available to NewDay about Mr B's financial position at the time of the second credit limit increase was such that the credit limit increase shouldn't have taken place. So, they recommended that this complaint be upheld in Mr B's favour on that basis.

NewDay didn't agree with the view of this complaint 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.

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

NewDay feel that they did that here, and note that when Mr B applied for the credit account that they took information from him about his income and expenditure at that time, and also that NewDay reviewed Mr B's credit file to get a better understanding of his wider financial

position. And NewDay maintain that there was nothing resulting from that information which they felt should have given them cause to suspect that Mr B might not be able to afford the credit account with an initial credit limit of £450 that was offered to him.

When Mr B applied for the credit account in March 2015, he told NewDay that he was employed with a gross annual income of £30,000, and that he had total existing unsecured debt of £16,500. NewDay also reviewed Mr B's credit file from which they assessed that there was no record of Mr B having any historical credit account defaults or adverse public records such as County Court Judgements.

NewDay also noted that Mr B's credit file appeared to demonstrate that Mr B was managing his existing credit commitments without incident at that time, and didn't show any record of Mr B using short term payday loans, which might be an indication that Mr B was struggling at that time.

The checks into Mr B's financial position that NewDay undertook here seem reasonable to me, and I'm satisfied that they were proportionate in relation to the amount of credit under consideration. And while Mr B's total amount of existing debt at that time was quite large when considered as a percentage of his annual income, I don't feel that it was prohibitive such that further credit shouldn't have been offered to him if that credit was deemed to have been affordable for him.

I'm also satisfied that there was nothing resulting from the information that NewDay gathered about Mr B's financial position at that time that suggested that he might in all likelihood not be able to afford the new credit account with an initial credit limit of £450 that was then provided to him, and as such I feel it was fair for NewDay to have approved Mr B's initial credit application and provided him with the relatively low amount of new credit that they did.

In July 2015, NewDay proactively increased the credit limit on Mr B's account from £450 to £650. Before doing so, NewDay reviewed how Mr B had managed his NewDay credit account in the months leading up to the credit limit increase. These showed that while Mr B had gone over the credit limit on the account in the first month of having it, he'd maintained the account balance within the limit since that time.

Additionally, NewDay also reviewed updated information obtained from a credit reference agency which continued to show that Mr B appeared to be managing his existing credit commitments without incident and that his total amount of existing debt hadn't significantly increased.

Again, these checks seem both reasonable and proportionate to me in relation to the relatively small amount of further credit being provided to Mr B at that time. However, it's noticeable that there's a considerable discrepancy between the £16,500 total amount of existing debt that Mr B had informed NewDay he held when he applied for the credit account a few months earlier, and the amount of total existing debt reported by the credit reference agency to NewDay at that time – which was only approximately £200. And I feel that NewDay should have taken steps to better understand this discrepancy, given that it indicated that there was a strong possibility that the information they were being provided with by the credit reference agency might not be complete.

Had NewDay investigated this point further they would have discovered that the discrepancy related to a car finance agreement that Mr B had which accounted for the large majority of the £16,500 total debt that he'd advised NewDay of in March 2015. Mr B was still repaying this car finance agreement in July 2015, and his credit file shows that it was being reported to his credit file by one of the credit reference agencies that supplied information to NewDay.

at that time - so it's unclear as to why this information wasn't being reported by that credit reference agency to NewDay.

However, it's also the case that in July 2015, Mr B was maintaining that car finance agreement without incident, and so I'm satisfied that it would have been reasonable for NewDay to have continued to offer the further £200 credit to Mr B that they did, had they investigated Mr B's financial position in more detail as I feel that they should.

Additionally, while it was the case that Mr B had been using his NewDay credit account to withdraw cash in the months leading up to the credit limit increase – which can be an indicator of potential financial difficulty – I'm satisfied that there weren't any other indicators of potential financial difficulty present in the information that NewDay assessed or should have assessed, and so I'm satisfied that it was reasonable for NewDay to have provided the further £200 credit that they did to Mr B at that time.

Finally, in November 2015, NewDay proactively increased the credit limit on Mr B's account by a further £200, from £650 to £850. Once again, before applying the credit limit increase, NewDay assessed how Mr B had managed his NewDay credit account in the months leading up to the credit limit increase, as well as reviewed updated information from a credit reference agency to refresh their understanding of Mr B's wider financial position.

However, again, the information that NewDay were provided by the credit reference agency didn't include the car finance agreement that formed the large majority of Mr B's total existing debt at that time, and once again I feel that it was incumbent on NewDay to have confirmed the status of that car finance agreement as part of any credit worthiness assessment that they undertook.

Had NewDay done this, they would have discovered that Mr B had been struggling to repay that car finance agreement and had fallen into arrears on it and had been in a repayment arrangement with the finance provider for the past several months. This would have been a clear indicator of financial difficulty. And it's also noticeable that further indicators of potential financial difficulty were present at that time, including that Mr B had continued to use his NewDay credit account to withdraw cash, and that he'd incurred a fee from NewDay for going over the agreed credit limit on his account in the month immediately before NewDay increased the credit limit on the account for the second time.

I therefore find it difficult to conclude that NewDay should have reasonably provided any further credit to Mr B in November 2015. Indeed, at the very least, I feel that the information that NewDay should have assessed should have given them cause to conduct more detailed checks into Mr B's financial position before providing any further credit to him. And I feel that these further checks should in all likelihood have included a review of Mr B's current account statements for the months leading up to the proposed second credit limit increase.

And had NewDay reviewed Mr B's current account statements here, they would have seen that Mr B had recently had to resort to using an unarranged overdraft with his current account provider, and that he'd also taken to using short term payday loans.

I'm aware that information to that effect wasn't provided to NewDay by the credit reference agencies, but Mr B had told NewDay of his total amount of existing debt when he first applied for the credit account, and as explained, I feel it was NewDay's responsibility to have resolved any discrepancies between the information provided by Mr B and that received from the credit reference agencies before offering any further credit to him.

All of which means that I don't feel that the second credit limit increase, from £650 to £850, should have fairly or reasonably been provided by NewDay to Mr B, and it follows from this that I'll be upholding this complaint in Mr B's favour on that basis.

Putting things right

NewDay must recall Mr B's account from the third-party debt purchasing company to whom it's my understanding the account has been sold.

NewDay must then reimburse to Mr B's account all charges and fees incurred on the account following the credit limit increase to £850 in November 2015.

NewDay must also reimburse to Mr B's account all interest accrued on the account for any portion of the account balance above £650 from the point of the credit limit increase in November 2015 onwards.

If these reimbursement result in a credit balance in Mr B's favour, NewDay must pay this balance to Mr B along with 8% simple interest calculated to the date of repayment.

If following the above reimbursements, a balance remains outstanding on the account for Mr B to pay, NewDay must contact Mr B to arrange an affordable repayment plan ensuring that no interest is charged on any part of the remaining balance above £650.

Finally, NewDay must arrange for the removal of all adverse credit reporting relating to this account following the credit limit increase to £850 in November 2015.

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 Mr B to accept or reject my decision before 15 July 2022.

Paul Cooper
Ombudsman