

The complaint

Mrs S complains that NewDay Ltd irresponsibly allowed her to open two credit card accounts and later increased the credit limit on one of them to unaffordable levels.

What happened

Mrs S says she was in financial difficulties when she opened the first NewDay credit card account and says her bank had closed her bank account due to gambling issues. She says NewDay increased the credit limit on the first account to unaffordable levels and then allowed her to open a second account. Mrs S says there were defaults on her credit file and had debts valued at over £10,000. She would like interest, charges refunded, and interest paid on any refund as well as adverse information removed from her credit file.

NewDay says the first account which I will call “A” was opened in 2016 and it carried out appropriate checks. It says Mrs S declared an income of £25,000 a year with additional household income of £25,000. NewDay says it calculated Mrs S’s other debt at about £100 and says the last default was some 50 months before the application and the last adverse information some 16 months before. It says it gave her a credit limit of £600 which was increased with appropriate checks carried out at the time.

NewDay says the second account which I will call “M” was opened in 2018 with a credit limit of £1,200. It says Mrs S again declared an income of £28,000 and it calculated her other debt at £2,400. NewDay says it also considered Mrs S’s account management of A and says she didn’t make any contact with it about gambling or financial difficulties.

Mrs S brought her complaint to us and our investigator upheld it. The investigator thought NewDay did carry out appropriate checks on the A application but shouldn’t have increased the credit limit from £600 to £800. The investigator thought the M account shouldn’t have been approved and didn’t think the lending sustainable or affordable. The investigator recommended interest and charges be refunded and any adverse information removed from Mrs S’s credit file.

NewDay doesn’t accept that view and says Mrs S’s debt of under £10,000 was affordable based on her income.

I asked both sides for further information including Mrs S’s credit file and account statements.

My provisional view

I issued a provisional view on this complaint and came to a different provisional view to that of the investigator for the reasons I said I would explain.

Lenders and credit providers should carry out reasonable and proportionate checks on any lending or credit application which also includes increases to a credit limit. Those checks will

of course vary depending on the type and amount of any lending. These were applications for credit facilities and increases to credit limits and so I wouldn't have expected NewDay's checks to have been as detailed here as for example a mortgage application, but such checks must of course be carried out.

I looked at the original A lending decision in December 2016. I could see that Mrs S declared an income of £25,000 and told NewDay there was additional household income of a further £25,000. I saw that NewDay looked at the application and Mrs S's credit file noting the previous defaults were some 50 months before and that the last adverse information was some 16 months before. I could also see that affordability calculations were carried out by NewDay including a check of Mrs S's existing debt which was relatively low. So, I was satisfied that NewDay did carry out reasonable and proportionate checks on the A application and that Mrs S's existing debt was low. I thought such lending ought to have been affordable based on Mrs S's income and low existing debt. I also thought NewDay approved a relatively modest credit limit of £600. It follows that I didn't think the lending was unaffordable or irresponsible.

NewDay increased the credit limit on the A account in August 2017 from £600 to £800. I appreciated by that stage there had been a late payment fee and Mrs S had exceeded her credit limit. But I could also see from NewDay's records that Mrs S on the whole managed her account appropriately and paid in excess of the minimum required amount. I also didn't think a £200 credit limit increase significant or that such an increase justified further checks over and above those I could see were carried out.

The next credit limit increase took place in November 2017 when Mrs S's A account credit limit was increased from £800 to £1,800. I could see that NewDay did check Mrs S's account management in the months before the increase and I saw that she made appropriate payments, on occasions significantly more than the minimum required amount. I didn't think Mrs S exceeded her credit limit or used the account for cash withdrawals which is often a sign of financial difficulties. I looked at Mrs S's credit file which I could see NewDay checked at this time and I couldn't see any adverse information recorded at that time. So, I was satisfied that NewDay did carry out reasonable and proportionate checks on this credit limit increase and that the increase was not on the face of it unaffordable or irresponsible. I also thought this still resulted in a relatively modest credit limit compared to Mrs S's income and debt. I also looked at Mrs S's bank statements from the time of the first two credit limit increases and saw that although Mrs S was gambling there was still a positive balance in her account.

The third credit limit increase took place in March 2018 when the credit limit was increased from £1,800 to £2,800. This increase took place some four months after the previous one and I was satisfied that it was a relatively significant increase. I looked carefully at NewDay's records from that time and could see that Mrs S exceeded her credit limit in December 2017 and January 2018, used her account for cash withdrawals and missed or was late making a further payment. I thought at this stage there were signs that justified further checks before approving a further credit limit increase and saw that Mrs S's other debt was increasing. I also thought it ought to have been reasonably clear to NewDay that although I thought previous increases were affordable, Mrs S tended to use her new available balance as soon as increases were approved.

I said I was satisfied that further checks would have revealed that Mrs S had a gambling issue. I appreciated that it was up to Mrs S how she spends her money and that gambling is a legitimate activity. But I also thought that if NewDay had carried out further checks it is likely that it would have concluded that further lending, by increasing the credit limit was unlikely to have been affordable due to the level of gambling or that Mrs S would have been in a position to repay her debt.

I could see that shortly after this increase that Mrs S used the new balance and exceeded it. I also saw that there were signs that the new limit was unaffordable which I thought provided further evidence that NewDay ought to have carried out further checks in March 2018.

The M account was opened in May 2018 some two months after the credit limit on A had been increased. I appreciated that NewDay carried out affordability checks, but I have made clear that I thought there were obvious issues in March 2018 that ought to have led to further checks being carried out and a more detailed assessment of Mrs S's position. It follows that as I thought those checks ought to have been carried out in March 2018 that I thought that the M account shouldn't have been approved. I also thought NewDay ought to have questioned why Mrs S wanted a new account when her credit limit had been recently increased on the other account.

Overall, my provisional view was that the March 2018 A credit limit increase was unaffordable as well as the M account. I intended to order NewDay to put Mrs S back in the position she would have been in if the increase and account hadn't been approved but I accepted she had the benefit of the money and that any refunds should be deducted from any balances owed.

I said that it appears NewDay has sold the accounts and so I provisionally thought it should buy back the accounts and I also intended to order it pay interest on any refunded balance at 8% simple interest if appropriate. I said I hoped NewDay could confirm before my final decision what if any information has been registered on Mrs S's credit file and if I follow my provisional decision what the impact would be on that credit file information. I also hoped NewDay could provide further information about what the impact on the outstanding balances would be if I followed my provisional decision.

Mrs S accepts my provisional decision but NewDay hasn't replied or provided the information I hoped it would.

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.

Having done so I have come to the same overall view that I reached in my provisional decision and for the same reasons.

Putting things right

NewDay should put Mrs S back in the position she would have been in if it didn't open the M account and if it didn't increase the A credit limit in March 2018. It should also buy back any accounts that it has sold and remove any adverse information from Mrs S's credit file caused by the M account being opened and the A credit limit being increased. It should also pay 8% simple interest per year on any refund on interest or charges due to Mrs S, if that refund results in a balance owed to her after being deducted from any balance owed.

My final decision

My final decision is that I uphold this complaint in part. I order NewDay Ltd to buy back Mrs S's accounts if necessary and refund her interest and charges on account M and on account A from March 2018 on any balance over the increased credit limit. If there is any refund due to Mrs S after a deduction from the amount, she owes, then 8% simple interest per year should be added to that refund. I also order NewDay Ltd to provide Mrs S with a certificate of taxation paid if necessary and that it remove any adverse information from her credit file

caused by the M lending decision or the March 2018 credit limit increase. It should also agree an appropriate repayment plan with her.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 2 July 2022.

David Singh
Ombudsman